BORDEN 1989 ANNUAL REPORT

BORDEN®
IF IT'S BORDEN-IT'S GOT TO BE GOOD

Six Strategic Growth Areas...

PASTA	Number one in the world
SNACKS	Second largest in North America
NICHE GROCERY	A leader in 26 U.S. categories
DAIRY	Largest U.S. producer
NON-FOOD CONSUMER	Number one in world wallcoverings
FILMS & ADHESIVES	A world leader in our product lines

Elsie's Growing Family of Brands

Our Growth Strategy Is Working

- **Focus on six strategic growth areas, divest others.**
- **Rapidly increase mass in those areas.**
- **Optimize new mass to reduce costs.**
- **Invest part of the savings to increase marketing.**
- **Add volume and repeat the process.**

1 PHASE ONE (1986-1989)

We built mass and market positions symbolized by the brands on the cover.

- Rapidly built mass through internal development; 78 precise acquisitions since March 1986, totaling over $3 billion in annual sales.
- Achieved fastest growth in Borden history, with 1989 sales dollars 61% higher than 1985, including a near quadrupling in pasta and well over a doubling in snacks.
- Built leading positions in the United States or worldwide in each of our six growth areas.
- Divested 22 businesses outside these chosen areas, with over $1 billion in annual sales, including a large and cyclical commodity chemicals business.

2 PHASE TWO (1989-1991)

We are moving fast to capitalize on this new mass to become a lowest-cost producer and an aggressive marketer of brands.

- Reconfiguring production – streamlining and consolidating operations with the goal of being a lowest-cost producer in each business by 1992.
- Investing a record $650 million total in 1990 and 1991 on capital expenditures.
- Increasing advertising and marketing support in 1990 and 1991 by an additional $75 to $100 million above normal increases.
- Reducing costs by an additional $100 million over the 1990-1994 span through the **Borden SQP Program** – Safety, Quality and Productivity – which involves employees at all levels.

PHASE TWO:

1 - Reconfiguring Production and Distribution

- Using a special reserve to speed reconfiguration, compressing it into just two to three years instead of five or more.
- Consolidating production into the largest, most modern facilities, closing smaller, older plants.
- Doubling the number of our large-scale, state-of-the-art, low-cost "hyperplants" with the development of 11 more.
- Exiting from overcrowded fluid milk and cultured products markets in the U.S. Southeast and Midwest, concentrating Borden dairy operations in strong regional markets in the South and West.

2 - Increasing Advertising and Marketing Support

- Launching a $15 to $20 million national television and print advertising campaign for ***Creamette*** pasta.
- Increasing advertising and promotion spending in U.S. snacks to protect Borden's strong market position and support both the launch of new products and geographic rollouts.
- Maintaining heavy advertising support for ***Classico*** premium pasta sauce and increasing spending on other grocery brands, including ***Eagle Brand*** sweetened condensed milk and ***Borden Lite-line*** cheese.
- Initiating a major regional television advertising campaign in 1990 to support ***Borden***, ***Lite-line***, ***Meadow Gold*** and ***Viva*** milk, ice cream and cultured dairy products.

3 - Making "SQP" a Way of Life

- Extending the **Borden SQP Program** (piloted in 1988 at Borden dairies and introduced to other Borden locations in 1989) to Borden operations worldwide in 1990.
- Establishing safety, quality and productivity benchmarks at each location, and rewarding employees by sharing with them the dollar savings from performance improvements.
- Achieving lasting safety, quality and productivity improvements – along with substantial cost savings – by tapping the initiative and ideas of all employees.

Fudge Bars
VIVA Sugar Free
Premium Brownie
Glacier Bar
CLASSIC
Meadow Gold
Lady Borden
Borden
EAGLE BRAND
Cracker Jack ICE CREAM BARS
MISSISSIPPI MUD
Frostick
Cottage Cheese
TURTLES CANDY
OLDE FASHIONED RECIPE
Lite-line
Protein Fortified
HI-PROTEIN
Homogenized Vitamin D Milk
EGG NOG
KLIM
HOMO 2%
Hi-Calcium
Cultured Skim Buttermilk
CHOCOLATE LOWFAT MILK
Campfire MARSHMALLOWS
Beef Broth
Chicken Broth
Pizza-Mate
Salad-Mate
Country store
BEEF FLAVOR BROWN GRAVY MIX
SUNWORTHY
BIRGE Victorian
INTERNATIONAL COLLECTION
Textural
BORGES
OCEAN FRESH
Fresh Jumbo Lump Crab Meat
REALEMON
Hortelana
JUMBO
Gallina Blanca
MENU
SUPERCREMA
SUPER SOPA
Krazy
Stix All
STEW STARTER
SOUP STARTER
CHOWDER STARTER
CHILI STARTER
New England Clam Chowder
Chopped Clams
Clam Juice
Orleans
SMOKED OYSTERS
BABY CLAMS
FILL'N FINISH
CARPENTER'S WOOD GLUE
CONCRETE BONDER
ELMER'S
GUY'S Original
Bravos nacho cheese
Seyferts Butter Pretzels
GROOVERS
Chips
patatas GRILL
Kitty Clover
ONE POUNDER
Buckeye
Spirals
CAIN'S
KAS
CHESTY
Cottage Fries
POTATO CHIPS
RESINAS FENOLICAS
AlpHASET Betaset
ROLOPAC
MOORE'S
ONE POUND
POTATO CHIPS
WISE POPCORN
RED SEAL
RIPPLE Potato Chips
Geiser's natural Potato Chips
Knäckebrot
Resins & Chemicals for the FOREST PRODUCTS INDUS
Wet End Additives For The Paper Industry
BORDEN
SEALWRAP

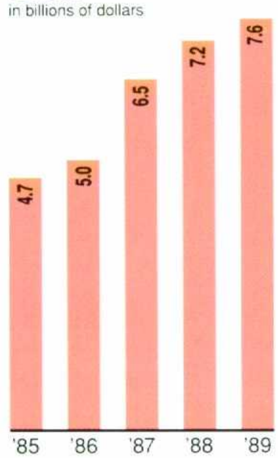
Financial Highlights

(In thousands except per share and percentage amounts) *Year Ended December 31,*	1989	1988*	% Change
Operating Results			
Net sales	**$7,593,417**	$7,243,526	+4.8
Income taxes	**63,100**	232,700	−72.9
Net (loss) income	**(60,552)****	311,882	−119.4
Net (loss) income per common share	**(0.41)****	2.11	−119.4
Dividends:			
Common share	**.90**	.745	+20.8
Preferred series B share	**1.32**	1.32	
Total dividends	**133,090**	110,354	+20.6
Acquisitions	**264,314**	379,859	
Capital expenditures	**243,960**	232,640	+4.9
Financial Position			
Working capital	**$ 472,015**	$ 591,711	−20.2
Current ratio	**1.3:1**	1.5:1	
Total debt to adjusted total capitalization	**51%**	43%	
Shareholders' equity	**$1,645,415**	$1,848,615	−11.0
Equity per common share	**11.12**	12.50	−11.0
Common shares outstanding	**147,956**	147,819	
Return on average shareholders' equity	**	17.8%	

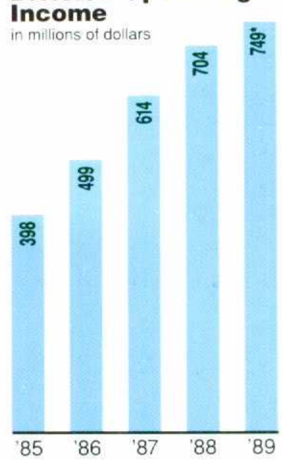
*Restated for two-for-one stock split explained in Note 8 to Consolidated Financial Statements.

**Includes one-time after tax charge of $404,378, or $2.73 per share, related to reconfiguration programs explained in Note 3 to Consolidated Financial Statements. Return on average shareholders' equity is not meaningful because of net loss resulting from reconfiguration programs.

Sales
in billions of dollars

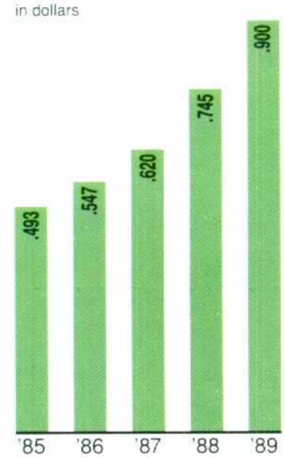


Division Operating Income
in millions of dollars



*excludes reconfiguration charge of $508 million

Dividends Per Share*
in dollars



*restated for two-for-one stock split

Borden, Inc., founded in 1857, is a worldwide producer of foods, non-food consumer products, and packaging and industrial products. The Company is number one in the world in pasta, wallcoverings, forest products adhesives and vinyl wrapping films; number one in U.S. dairy; number two in salty snacks in North America; and number one or two (nationally or regionally) in 26 U.S. niche grocery product categories.

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The product names shown in bold face italics in this report are trademarks of Borden, Inc.

Letter to Shareholders and Employees

Borden is moving down the stretch in a drive to complete the most rapid transformation in its 132-year history:

- At the end of 1985, Borden was viewed as a dairy company with a great many regional food businesses, and a sizable but cyclical chemical business.
- Today, four years later, Borden has become a major national pasta, snack and branded grocery company – with a large regional dairy business and a sizable, diverse films and adhesives operation.
- By 1992, with completion of an accelerated modernization drive, we also expect to be lowest-cost producers in each of these businesses, strongly positioned for the global competition of the 1990s.

The mass assembled in Phase One of our growth program created our present opportunities to profit from the economies of large-scale production. To seize these opportunities quickly and reap the benefits sooner, we established a special $404 million after-tax reserve announced in the 1989 third quarter. The reserve covers the one-time costs of restructuring and reconfiguration. The reserve enables us to absorb these costs up-front, and creates the net loss reported for the year.

Reported sales of $7.6 billion in 1989 were up 4.8% over the previous year. Excluding the reserve, division operating income advanced 6.3%, and income per share increased 10.0%.

Building Positions of Strength

As shareholders, you have followed Phase One of our growth strategy: an aggressive program of 78 precise acquisitions and internal development that has increased sales 61% since 1985, all in our chosen growth areas (see charts).

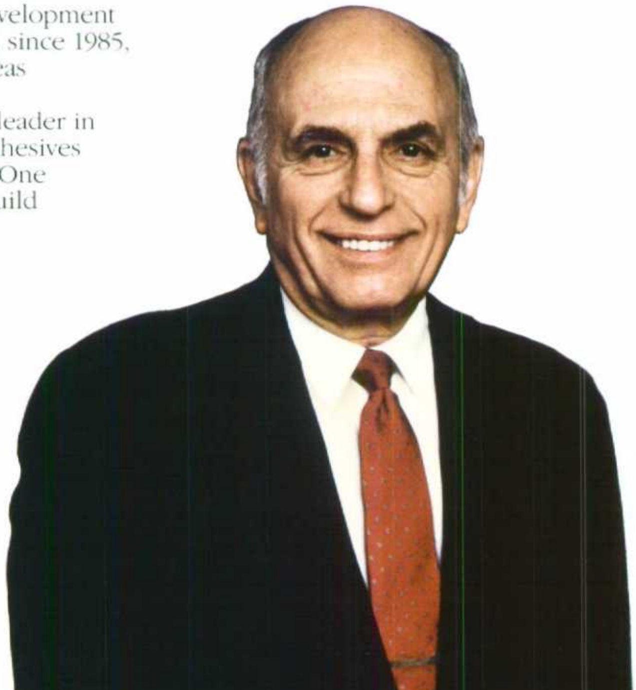
Borden was already the leader in dairy and forest products adhesives when we began our Phase One drive to grow rapidly and build more mass.

In our other businesses, the Phase One program quickly established the kind of leadership needed to hold a place on today's crowded supermarket shelves. The cover of this report summarizes our positions.

Since 1985, we have:

- Nearly quadrupled our worldwide pasta business, taken it nationwide in the United States, to Canada and to Italy, and become the undisputed world leader in a top growth category.
- More than doubled our North American snack business to become a stronger number two, while increasing our West German sweet snack business fourfold.
- Doubled our canned seafood specialties business to become the largest in this niche grocery category, and captured the top spot in the profitable niche of individual portion products for the foodservice industry.
- Tripled our European wallcovering business to attain world leadership, and complemented our leading line of ***Elmer's*** glues through a joint venture with rights to ***Krazy Glue*** instant adhesives, another best-seller.
- Tripled both our European films and plastic packaging business, and the domestic industrial resin business.

Internationally, we will continue to build positions in our chosen businesses through acquisitions, but in the United States we are into Phase Two of our growth strategy: becoming a more efficient producer to lower our costs, and plowing a portion of the savings into greater marketing support.



R. J. Ventres

Streamlining for the 1990s

A portion of the reserve permits us to restructure dairy operations, and withdraw from fluid milk and cultured products (but not ice cream) in the overcrowded markets of the East, Southeast and Midwest. We expect an increase in future dairy profit margins as we focus on our most promising dairy operations in the South and West.

With this strong regional dairy business, plus our continuing ice cream operations, Borden will hold its top ranking in the U.S. dairy industry.

The larger share of the reserve, however, is earmarked to support a streamlining program that will make us lowest-cost producers in each of our six businesses by 1992.

Over the 1990-91 period, we will invest about $650 million in plant expansions and modernizations in Borden facilities around the world: the largest two-year capital investment in our history.

We grew today's very large businesses fast by putting together many small- and medium-sized businesses. Most of them had small- and medium-sized plants. During Phase Two, we will streamline the system by concentrating production into fewer, large-scale, economical, state-of-the-art facilities – many of them "hyperplants" to be developed by expanding our best-located facilities.

The program calls for the development of 11 such hyperplants in our food businesses, doubling the 11 we have currently.

A $108-million capital investment in pasta is already under way, which will increase net capacity 25% and put all of our pasta production in state-of-the-art, low-cost facilities. The program will add production lines at existing facilities and develop two new hyperplants.

Three large-scale hyperplants are slated in dairy – each based on a modern facility we operate now, one in fluid milk and two in ice cream.

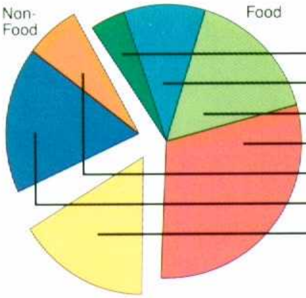
Other major capital projects include two hyperplants to be built or developed in foodservice, one in canned seafood specialties, one or two in U.S. snacks, and one in West German sweet baked snacks.

More Marketing Support

The steady reduction in our production costs will enable us to channel more dollars into marketing support for Borden brands.

We have budgeted $75-100 million above normal increases for advertising and marketing support during 1990 and 1991.

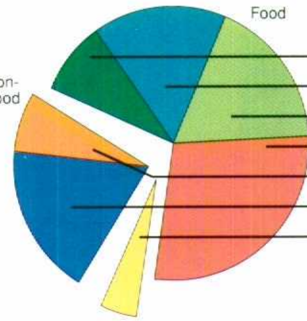
1985 Sales (in millions of dollars)



Pasta	$ 169	3.6%
Snacks	464	9.8
Niche Grocery	764	16.2
Dairy	1,419	30.1
Non-Food Consumer	333	7.1
Films and Adhesives	810	17.2
Divested	757	16.0

1985 Sales: $4.7 billion

1989 Sales (in millions of dollars)



Pasta	$ 658	8.7%
Snacks	1,198	15.8
Niche Grocery	1,334	17.6
Dairy	2,160	28.4
Non-Food Consumer	623	8.2
Films and Adhesives	1,298	17.1
Divested	322	4.2

1989 Sales: $7.6 billion

Thanks to our growth in Phase One, Borden now has a national reach in all of its non-dairy consumer product areas. We have steadily increased advertising support for nationwide brands like ***Creamette*** pasta, ***Classico*** sauce and ***Krunchers!*** potato chips. The benefits to sales and profits have been excellent.

With the cost savings from Phase Two, we will increase advertising and marketing support for these and other major national brands, such as ***Borden Lite-line*** cheese, ***Eagle Brand*** sweetened condensed milk and ***Cracker Jack*** caramel popcorn.

Advertising support will also increase for our regional dairy business, with emphasis on the fast-growing low-fat product sector. ***Elsie*** will remind consumers of the nutritional values of dairy products and the outstanding quality of the ***Borden***, ***Lite-line***, ***Meadow Gold*** and ***Viva*** brands.

Financial Strength

We could have elected to absorb the costs of Phase Two streamlining out of operating earnings as we went along – and waited five to seven years to achieve the economies now permitted by our increased size.

We chose instead to establish the reserve, act quickly on reconfiguration and begin reaping the benefits sooner. The action drew strong support in the financial community as a move that would significantly increase the profitability and long-term value of your Company.

The reserve does not affect dividends or Borden's basic financial soundness. Your Board of Directors raised the cash dividend rate on the common stock not once, but twice during 1989, for a total increase exceeding 23% (the greatest gain since 1946). The Board also declared a two-for-one split of the common stock, which was distributed in September 1989.

Those actions clearly signal that Borden is healthy and has excellent prospects.

The People Behind Our Progress

The rapid change under way at Borden has been led by a remarkably stable management group for today's business environment – a stability symbolized by the 24 members of our Core Management Group, who average 20 years of service with the Company, and 27 years experience in their fields.

It was the knowledge and dedication of Borden people at many levels that made possible the Company's unique acquisition strategy and the rapid, focused growth of recent years.

Now, the energy and creativity of Borden people at all levels are being enlisted in our drive to become lowest-cost producers through a unique program called **"SQP"**, for safety, quality and productivity.

The **Borden SQP Program** creates a partnership between managers and employees to improve performance at the plant level – and it enables employees to participate directly in changing things for the better and sharing in the rewards.

At each plant, specific targets for safety, quality and productivity performance are set and shared with employees, who join in finding ways to reduce accidents, raise quality and produce more efficiently.

Employee teamwork is recognized, and suggestions are solicited and acted on quickly. After tough safety and quality minimums have been met, productivity gains are shared with the employees who made them possible, through awards of up to several hundred dollars per person.

The **SQP** gain-sharing program was pioneered at 45 locations in 1988, expanded to all divisions and some international sites in 1989 and will reach virtually all locations worldwide in 1990. At most locations, union members have chosen to participate.

We expect the savings from **SQP** to be substantial: $100 million over the 1990 to 1994 period, based on initial experience.

As important, we see **SQP** as a continuing employee participation program that will make teamwork for improvement and gain-sharing a permanent part of the Borden culture in years ahead.

* * *

The strength of Borden today is a tribute not only to the work of thousands of dedicated Borden employees around the world, but also to the wise counsel of our Board of Directors and the steadfast support of our shareholders.

We are fortunate to have directors who bring with them a wealth of insight and experience from distinguished careers in their own fields. Their encouragement and dedication have been invaluable as we honed our growth strategy over the years. The Board was further strengthened with the addition of a new member in August 1989 – Robert P. Luciano, chairman of the board, chief executive officer and a director of Schering-Plough Corporation.

Finally, our shareholders – many with holdings that go back for generations – are a continuing source of strength. To you, we pledge continued efforts to increase the value of your Company, and maintain the flow of dividend payments that has risen each year for 16 consecutive years – and gone on without interruption since 1899!

R. J. Ventres

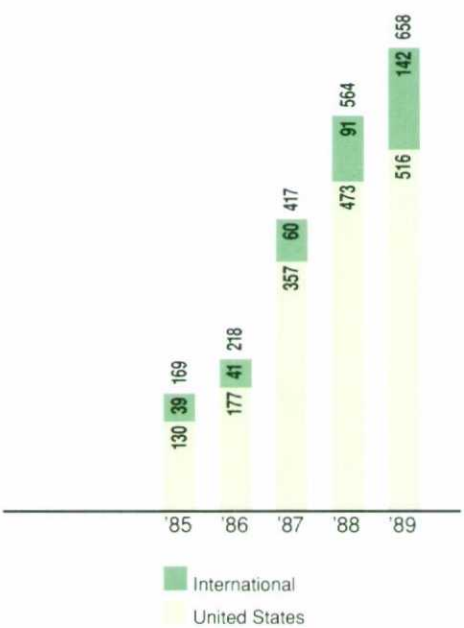
Chairman and
Chief Executive Officer

1 PASTA

Borden is the largest pasta producer in the United States, Canada and the world. Our worldwide pasta sales have nearly quadrupled since 1985. We now have the mass in pasta to strengthen our status as the industry's lowest-cost producer, increase advertising and promotion, and, through research, stay on the leading edge of product and process technology.

Pasta – delicious, nutritious, versatile and inexpensive.

Pasta Sales
in millions of dollars



As the largest producer of pasta in the United States, Canada and the world, Borden is ideally positioned to profit from the continuing rise in pasta's popularity, and all signs point to increased pasta consumption by the consumer of the 1990s.

The benefits of pasta are compelling. First is a nutritional profile that's high-rated both by health-conscious consumers and nutrition professionals. Pasta is rich in complex carbohydrates, an excellent source of vegetable protein, low in fat and sodium, and (except for egg noodles) has no cholesterol.

Pasta offers superior value for the consumer's dollar. It's uniquely versatile and can be prepared in delicious and different ways. And now it's even easier to make than ever, thanks to technical breakthroughs by Borden that allow quick cooking in the ubiquitous microwave without any falloff from the quality of stovetop pasta.

Pasta consumption is booming. U.S. per capita consumption nearly doubled during the decade just ended, to almost 18 pounds per person in 1989.

Retail sales figures are equally impressive. According to *Progressive Grocer* magazine, pasta dollar sales climbed over 10% in 1988 (the latest year available), nearly twice the average of other supermarket items, and pasta posted one of the largest five-year sales gains as well.

Borden's Path to Number One

Borden's worldwide pasta sales have surged even faster than the industry. Our U.S. pasta sales reached $516 million in 1989, up fourfold since 1985, and international sales of $142 million were more than triple the 1985 level.

Our share of U.S. retail dry pasta sales was an industry leading 31% in 1989, double the 15% share we held at year-end 1985. ***Creamette*** brand – our flagship national pasta – has led the growth. It topped 12% in share of sales in 1989, second-best in the industry and closing in on number one. Combined with ***Creamette Pennsylvania Dutch*** noodles, our brand held nearly 14% share of sales in 1989.

Borden entered the U.S. pasta business just 10 years ago, with the

Borden sells its flagship ***Creamette*** pasta and ***Pennsylvania Dutch*** noodles coast-to-coast, along with the leading premium U.S. ***Silver Award*** and ***DeCecco*** imported pasta brands. In Canada, our ***Catelli*** brand is number one.

New ***Creamette*** microwave elbows combine the taste of fresh pasta with the convenience of microwave cooking.

1979 acquisition of The Creamette Company, then a Northcentral business. With the acquisition since then of 11 regional operations with an even greater number of brands, we completed a nationwide pasta network.

In 1988, the value of this network became clear: We used our in-place distribution capabilities to complete the rollout of ***Creamette*** as the industry's first and only national brand.

Alongside ***Creamette***, Borden's family of pasta units offer consumers such popular regional brands as ***Prince*** in New England, ***Gioia*** and ***Vimco*** in the Northeast, ***Luxury*** on the Gulf Coast, ***R-F*** and ***Ronco*** in the Midwest, and ***Anthony's***, ***Globe A-1*** and ***Merlino's*** on the West Coast.

Borden also has the first national noodle, ***Creamette Pennsylvania Dutch***, and two specialty pastas available in selected outlets coast-to-coast: ***Silver Award*** premium U.S.-made pasta, and ***DeCecco***, the world-renowned premium brand made in Italy and distributed exclusively in the United States by Borden.

We became Canada's number one pasta producer in 1989 by acquiring the Catelli business. The ***Catelli*** brand of dry pasta is that nation's best seller. Catelli also makes and markets fresh pasta under the ***Nelia*** and ***Di Parma*** brands, giving Borden a foothold in that high-end specialty pasta segment for possible development in the United States.

In Europe, Borden has similarly acquired a base to build upon, via our 1987 and 1988 purchases of the Albadoro and Monder Aliment pasta companies in Italy.

Borden will increase its current pasta production capacity by 25% during Phase Two by constructing two new hyperplants in North America and adding new production lines at several existing facilities, including our New Hope, Minnesota, hyperplant. With capacity already about 200 million pounds per year, New Hope is one of the world's largest pasta plants.

Shown: Mark Prchal, production scheduler.

Low-Cost Producer

The mass Borden built in pasta during Phase One – we currently make more than a billion pounds each year – has already enabled us to achieve significant economies of scale. Plant efficiency is the major one, but we also benefit in purchasing durum wheat and packaging, in distribution and in administration.

Borden is already the industry's lowest-cost producer, largely due to four state-of-the-art hyperplants, strategically located at New Hope, Minnesota; Tolleson (outside Phoenix), Arizona; Lowell, Massachusetts; and Warren, Michigan.

During Phase Two, Borden will spend $108 million on capital projects to make the entire production system equally efficient. We'll construct two new hyperplants in North America. Including new production lines at existing facilities, a total of 17 new lines are slated for completion by mid-1992, with the first two operating by mid-1990 at Lowell and New Hope.

When expansion and modernization are complete, all of our North American pasta will be produced in the industry's lowest-cost, most modern facilities – either giant-sized hyperplants or small, efficient plants for specialty pasta products.

More Advertising, More Sales

Now that ***Creamette*** brand is national, and Borden is number one in the U.S. pasta industry, we have a unique opportunity to advertise heavily. Advertising grows our own brands. But it also grows the entire pasta category, and now we'll benefit from category growth more than anyone else.

In 1990, we will launch a $15 to $20 million national advertising campaign for ***Creamette*** brand. The spot television portion highlights the overall quality and national leadership of ***Creamette***, while the national print ads present usage ideas targeted to fit every lifestyle.

We'll also continue local advertising for our regional brands, and the use of a full range of other marketing and promotion tools to support our pasta lines.

Pasta cookbooks are especially effective. Late in 1989, we published a new one called "A New Look At The Basics" to demonstrate the ease of preparing pasta. More than 15 million copies will be distributed to consumers during 1990 in newspapers and supermarkets.

Part of 1990's advertising and marketing dollars will support the national rollout of ***Creamette*** microwave pasta, a top-quality pasta based on patent-pending product and process technology from Borden. Elbow macaroni was introduced nationally in late 1989, and three more shapes are being introduced nationally in early 1990.

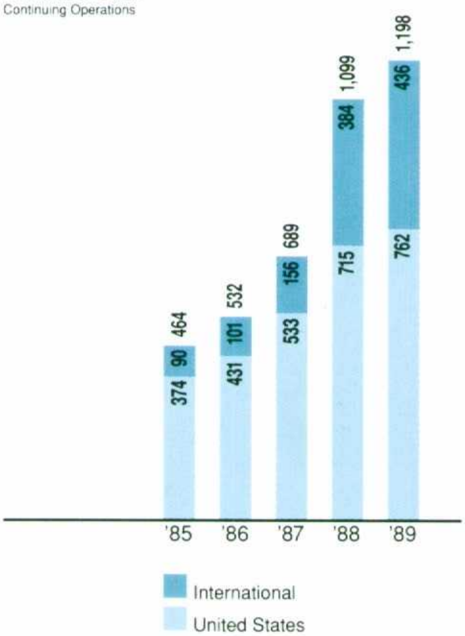
Creamette microwave pasta combines the quality, taste and texture of fresh cooked pasta with the ease and convenience of microwave cooking. It actually cooks in the microwave, along with a measured amount of water that's entirely absorbed to eliminate draining.

La Famous salsa and tortilla chips – a perfect combination.

2 SNACKS

Borden is a world leader in snacks. We are the second-largest salty snack producer in North America; the leading producer in West Germany of sweet baked snacks and specialty breads; and a major producer of salty snacks in Spain and the United Kingdom, with smaller businesses in Ecuador, Puerto Rico and Malaysia.

Snack Sales
in millions of dollars
Continuing Operations



Borden built its world leadership in snacks through aggressive acquisitions and internal growth in Phase One. Now, in Phase Two, we're scaling up and consolidating facilities for lowest-cost production, and capitalizing on the distribution networks established in Phase One.

Building the Networks

At the start of 1986, the largest units we already had were Wise Foods on the East Coast, Guy's Foods in the Midwest and Clover Club in the Mountain states.

We set out to complete a North American network of strong regional snack companies that would give us store-door delivery coast-to-coast. Acquiring Jays Foods in 1986 and Snacktime in 1987 closed major gaps in the Midwest, and the purchase of Laura Scudder's in 1987 brought us into California.

The addition of Humpty Dumpty Foods in 1988 extended our distribution network into eastern Canada. Then, with the purchase of Moore's in 1989, we strengthened our coverage in the Southeastern and Southcentral states.

Scaling Up Production

Achieving lowest-cost production is essential to maintaining profitability, especially in today's highly competitive U.S. snack industry.

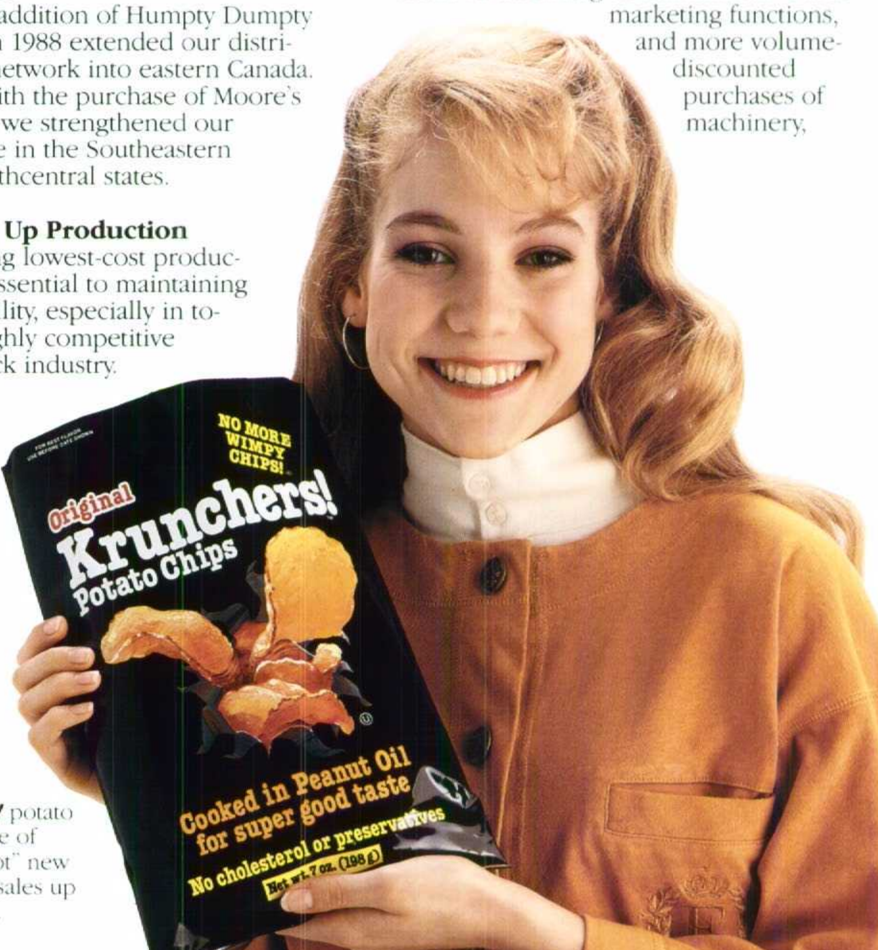
Even as we acquired regional snack companies during Phase One, we moved to concentrate production in the most modern and efficient plants. Six of our smaller, less efficient operations were consolidated into larger, lower cost facilities during the 1986 to 1989 span.

Through expansion and modernization, four of our 17 plants in North America have become true hyperplants: Wise Foods at Berwick, Pennsylvania; Clover Club at Kaysville, Utah; Guy's Foods at Liberty, Missouri; and Humpty Dumpty at Lachine (near Montreal), Quebec.

In Phase Two, we'll continue consolidating production and upgrading existing plants. We also plan to develop one, and possibly two more state-of-the-art hyperplants.

We will continue to work on other cost-saving synergies as well, such as more streamlining of administrative and marketing functions, and more volume-discounted purchases of machinery,

Borden is strengthening its number two position in salty snacks by introducing more snack brands to more consumers throughout its North American distribution network.



Krunchers! potato chips are one of Borden's "hot" new snacks with sales up 50% in 1989.

vehicles, manufacturing supplies and product packaging.

Capitalizing on the Network

Our new distribution network makes it possible to roll out "hot" snack products nationwide, expanding sales by reaching millions more consumers. The pace of product rollouts will accelerate in Phase Two, with heavy marketing support for our strongest brands.

Among the snack brands we've successfully extended using our coast-to-coast network are: ***Krunchers!***, ***New York Deli*** and ***Cottage Fries*** potato chips; ***Wise*** and ***Wise Choice*** popcorn; ***Bravos*** and ***La Famous*** tortilla chips, and ***Cheez Doodles*** corn snacks.

Sales of ***Krunchers!*** premium potato chips have soared since their limited regional launch by Snacktime in 1986. ***Krunchers!*** sales were up 50% to $60 million in 1989 as their distribution area was expanded to a total of 25 Midwestern, Mid-Atlantic, Southeastern and Southwestern states. Further rollout into metropolitan New York, New England and the West Coast is planned for 1990.

In 1989, we also extended U.S. distribution of ***Super Crispy Ridgies***, our new "crispenized" rippled potato chips, and introduced ***Cheez Doodles*** snacks into eastern Canada through Humpty Dumpty.

In the fast-growing market for ready-to-eat bagged popcorn, Borden is the leading North American producer. In 1989, we added ***Wise Choice*** premium popcorn, in no salt and white cheddar varieties, to our family of other popular ***Wise*** and regional popcorn brands. Borden's dollar sales growth for bagged popcorn in 1989 outpaced the industry by more than two-and-a-half times.

Our ***Bravos*** and ***La Famous*** tortilla chips, now in national rollout, have also enjoyed faster sales growth than the industry. Several new varieties of premium tortilla chips are upcoming in 1990 to help sustain this momentum.

The Borden SQP Program was piloted in several North American snack plants in 1989. The participating plants improved markedly in both production and raw material efficiency, and in product quality. The 1989 top-achieving Seyfert Foods' employees at Fort Wayne, Indiana (below), boosted labor efficiency and achieved money-saving gains in oil, potato and packaging yields.

Shown: Andre Cuffey, dough maker.

More Marketing and Promotion

Competition has never been more keen, and market spending as a percent of sales has never been higher. Two new national snack companies are vying for shelf space and market share, and spending heavily to try to achieve their goals.

Borden must meet or exceed their spending to be a winner in today's snack war and build on our strong number two market position. We intend to do exactly that.

Our emphasis will be on across-the-board marketing initiatives, aimed at retailers and consumers, where we project greatest benefit for the dollars to be spent.

Television advertising will be used primarily to support the continued rollout of ***Krunchers!*** chips as the brand reaches new regions.

For all brands, we plan to work closely with retailers to place more in-store displays, similar to the highly successful "Tortilla Center" end-aisle display that bolstered sales of ***La Famous*** tortilla chips in 1989.

For consumers, we'll offer more newspaper promotional/coupon inserts. Prior to Super Bowl Sunday in January 1990, we placed 20 different inserts across the nation, each one tailored to specific regional product objectives of the regional snack units. Promotional inserts are planned for major holidays throughout the year, which are traditionally periods of peak snack consumption.

We'll also expand our on-package promotions, including contests, merchandise offers and more.

Parallel Opportunities Overseas

We have applied our North American snack strategies to build a European snack business as well.

During Phase One, we used acquisitions to seize a number one position in West Germany's giant sweet baked snacks and specialty breads business.

Starting in 1986 with our flagship Wilhelm Weber commercial bakery and the Nur Hier chain of retail bakeries in Hamburg, we have increased our West German snack sales more than fourfold. We acquired Karl Jaus and the smaller Gross commercial bakery businesses, and the Stefansback, Nuschelberg and Kuchen-Betz regional chains of retail bakeries. Our retail bakery count is now 249 and growing.

We've moved carefully on consolidations to assure that customers receive the freshest possible baked products, and we are now planning to build a hyperplant to supply packaged baked goods to supermarkets.

In salty snack operations outside North America, the bulk of Borden sales is in Europe. We have a long-standing position in Spain with the Crecspan unit, and in 1988 we entered the United Kingdom by acquiring Sooner Snacks.

There's been a steady sharing of process, product and marketing ideas among Sooner, Crecspan and the North American operations. An illustration: Sooner introduced ***Primes*** potato chips in 1989, a product patterned after ***Super Crispy Ridgies*** chips but flavored to match British tastes.

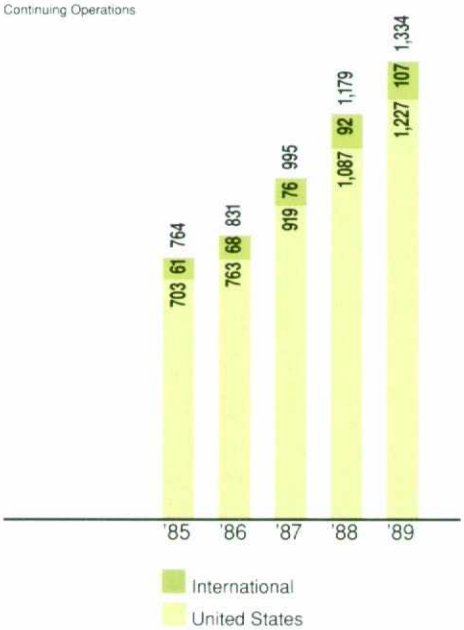
An expansion/modernization is under way at Sooner Snacks, which was the first international snack operation to pioneer the **SQP Program**.

3 NICHE GROCERY

Borden's niche grocery business includes a treasury of 40 U.S. food brands that give us number one or two positions, either nationally or regionally, in 26 different grocery categories. We have major operations in Canada, Europe and the Far East as well.

Eagle Brand sweetened condensed milk for delicious desserts.

Niche Grocery Sales
in millions of dollars
Continuing Operations



Many of Borden's niche grocery brands are national, including ***Eagle Brand*** sweetened condensed milk, ***Cracker Jack*** caramel popcorn, ***Wyler's*** bouillon, ***Lite-line*** cheese and ***Classico*** premium pasta sauce. Others are regional favorites, such as ***Bama*** jams and jellies in the South and ***Laura Scudder's*** peanut butter in California.

Powerful brands like these have strong positions on supermarket shelves. In today's intense battle for that space, the trailing brands tend to be displaced.

The Borden niche grocery business also has the highest profit margin of any of our food operations. The number and diversity of brands ensures greater earnings stability than if we had "mega-brands" with enormous sales dollars in just a few categories.

Our collection of niche brands, however, does aggregate a mega business. U.S. sales in 1989 were $1.2 billion, up nearly 75% from 1985; operations outside the United States added another $107 million in 1989 sales.

Putting It All Together
Borden has added 22 of its 40 domestic niche brands since the start of Phase One in 1986.

A notable addition was ***Classico*** pasta sauce, acquired in mid-1987 with The Prince Company, but then marketed principally in the Northeast.

We quickly completed a national rollout, and within a year the brand won the top ranking in the U.S. premium sauce category (along with a number three share of all pasta sauce sales). ***Classico*** brand sales dollars tripled in 1988 and jumped another 23% in 1989.

In 1989, we launched three new ***Classico*** varieties, which doubled the product line and have already helped the brand to higher share of industry sales. Including ***Aunt Millie's***, ***Prince*** and ***Gioia*** regional pasta sauces, we now have a 12.5% share of industry sales in the $1 billion U.S. pasta sauce market.

Borden became the industry's largest and only full-line supplier of canned seafood specialties through a

Borden added to its niche grocery sales in 1989 through line extensions of established national brands and new introductions.

Classico pasta sauce is the U.S. industry's best-selling brand of premium pasta sauce.

series of Phase One acquisitions. We added ***Doxsee***, ***Orleans***, ***Harris*** and several smaller brands to our ***Snow's*** line of clam products.

Other key acquisitions have been:

- ***Fisher*** cheese substitutes;
- ***Steero*** bouillon and ***MBT*** broth;
- ***Soup Starter*** and ***Mrs. Grass*** dry soup mixes; and
- ***Cary's*** and ***Vermont Maple Orchards*** pure maple syrup.

Production Efficiency Already Up

As we were adding brands and mass during Phase One, we were also reconfiguring to improve production efficiency.

In some cases, we bought a brand but not the seller's plant, and reduced per-unit costs by pushing new volume through an existing Borden facility. In other cases, we consolidated the output from smaller, older plants into more efficient ones elsewhere in our system, such as in cheese, canned seafood and maple syrup.

Borden's development of "multiproduct" plants underlies our low-cost production of niche brands. Our multiproduct plant at Northbrook, Illinois, produces six grocery brands (see photos). Another multiproduct plant, at Birmingham, Alabama, processes an even broader spectrum of 15 niche grocery products, including ***ReaLemon*** lemon juice, ***Bama*** fruit products, ***Laura Scudder's*** peanut butter and ***Cary's*** syrup.

Individual Portion Leader

The fastest-growing area in the food industry is foodservice – products for restaurants, hospitals and similar outlets for away-from-home meals. Borden's sales of foodservice niche grocery products in 1989 were more than 20 times greater than 1985, with emphasis on the most profitable niche of small, individual portion packages.

Through rapid acquisitions during Phase One, Borden has become the nation's largest supplier of individual portion items. That's given us the opportunity to strengthen brand franchises by packaging additional Borden products in the single-serve size.

Rapid growth brought us a large foodservice business fed by many small plants. In Phase Two, we'll consolidate production into the largest and most efficient, including the development of at least two low-cost hyperplants.

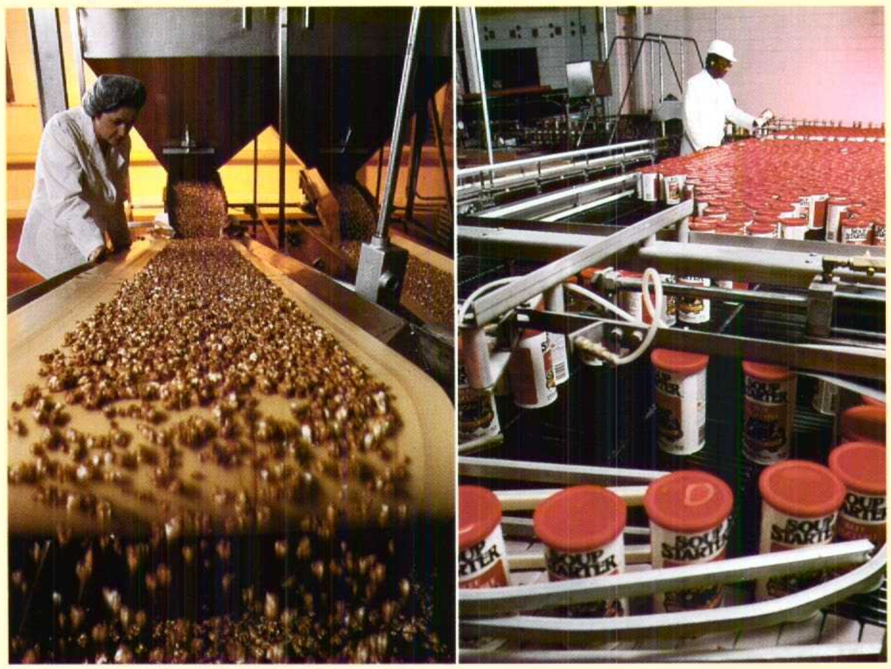
Advertising/Marketing Initiatives

A second key aspect of Phase Two will be greater spending on advertising and marketing of Borden brands.

We'll target more dollars for our range of process cheese products, with particular focus on the low calorie, fat and cholesterol content of ***Lite-line*** cheese when compared with standard process American cheese.

We achieve large scale operations and hyperplant efficiencies within niche grocery by manufacturing many small- and medium-volume products under one roof. A standout example is our Northbrook, Illinois, multiproduct plant, which turns out *Cracker Jack* brand (photo left), *Wyler's* bouillon and four acquired brands: *Steero*, *MBT*, the *Soup Starter* family (photo right) and *Mrs. Grass*.

Shown: Josephine Augustine, production worker (left) and Les Jones, supervisor (right).



Eagle Brand sweetened condensed milk and ***Cracker Jack*** caramel popcorn are slated for an infusion of marketing support. We'll give consumers more recipe usage ideas via print advertising to help spur sales of ***Eagle Brand***. For ***Cracker Jack***, we'll focus on consumer promotions to increase both the size and frequency of purchases.

Strong advertising support will be sustained for ***Classico*** pasta sauce. Network television helped the brand to its current best-seller status. New ads are now on the air featuring the authentic regional Italian recipes behind the latest varieties.

International Opportunities

Borden is number one in the pasta sauce category in Canada, thanks to the mid-1989 acquisition of the ***Catelli*** brand. We acquired the top-selling ***Milk Mate*** line of flavored drink mixes earlier in 1989, and we were already category leaders in Canada with ***Eagle Brand*** sweetened condensed milk, ***Cracker Jack*** caramel popcorn, and ***Snow's*** canned seafood specialties.

Expanding our grocery business in Europe remains a priority – we're looking to build the same type of mass we've attained in the United States. We have two small businesses now: ***ReaLemon*** lemon juice in Belgium and other countries, and ***Cocio*** and ***Congo*** bottled chocolate milk in Denmark (the latter milk brand added in 1989).

Borden's major grocery operation in Europe is our 50% partnership in Gallina Blanca, Spain's number one producer of dry soup mixes and bouillon and a world leader as well. The company launched yet another outstanding new product in 1989 with ***Hoy Menu*** pasta and rice side dishes, selling so well that production capacity is straining to meet demand.

The company has a multiproduct expansion under way. The capital project will make Gallina Blanca's premier processing facility, at San Juan Despi, Spain, even more efficient and technically advanced. It also provides the company with capacity to participate fully in the post-1992 unified European marketplace.

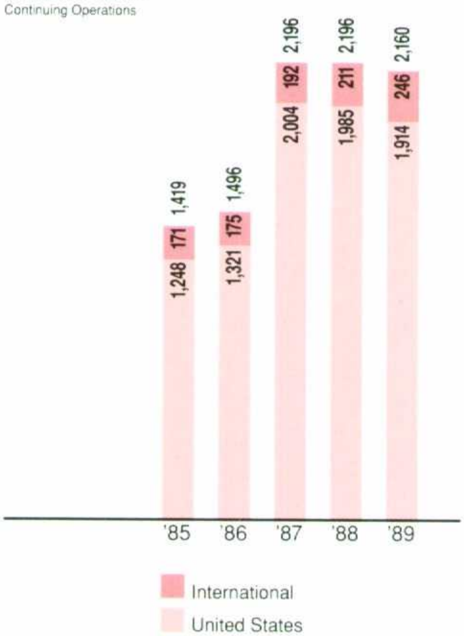
We're working to grow in the Far East as well, beyond the position we have today (through another joint venture) as one of Japan's top producers of individually wrapped cheese slices.

A tasty frozen treat.

4 DAIRY

Borden is the largest U.S. dairy producer. Our dairy brands include popular *Borden*, *Meadow Gold*, *Viva* and *Lite-line* milk, ice cream and other frozen desserts, cottage cheese, yogurt and sour cream. Overseas, *KLIM* whole milk powder is the second-leading brand worldwide, and *Lady Borden* and *Borden Home Made* are the top selling premium/superpremium ice creams in Japan.

Dairy Sales
in millions of dollars
Continuing Operations



In 1989, Borden launched a major restructuring of its dairy business, withdrawing from overcrowded markets in the East, Southeast and Midwest in order to concentrate on its most promising operations in the South and West.

As a result, dairy profit margins are expected to increase, reflecting the greater strength of the operations we are retaining – along with the effects of greater efficiency and increased marketing support under Phase Two of Borden's growth program.

The dairy industry in the markets we're leaving has long suffered from serious overcapacity. This has depressed prices and intensified the margin squeeze from record-high raw milk costs over the past two years.

In contrast, the regional markets we're focusing on are in areas where the ***Borden***, ***Lite-line***, ***Meadow Gold*** and ***Viva*** brands mean the most to consumers, and where the prospects are brightest for profitable growth.

Our continuing business is split almost equally between Borden and Meadow Gold operations. In addition, Borden will continue to market ice cream and frozen desserts in many areas where it is ending fluid milk operations.

A part of the restructuring reserve announced in September 1989 provided funds for an orderly exit from these selected markets, representing about one-third of our U.S. dairy sales. Wherever possible, Borden will sell the fluid milk and cultured products plants involved as ongoing businesses.

Borden expects to remain the U.S. dairy leader in 1990 dollar sales with its continuing regional dairy businesses

Borden Light and ***Viva*** fudge bars, ice pops and other frozen desserts are sugar-free alternatives with fewer calories than standard frozen desserts.

Borden Lite-line and ***Viva*** protein-fortified skim milks are popular with health-conscious consumers who want a richer look and a much better taste than regular skim milk.

in the South and West and its ongoing ice cream and frozen dessert operations across much of its original marketing area.

Reconfiguration Continues

Consolidations sharply increased dairy efficiency during 1989, streamlining the Borden and Meadow Gold processing network. Operating costs will be cut further as part of the Companywide reconfiguration program in 1990. Dairy reconfiguration will result in further production consolidations and the development of hyperplants for both fluid milk and ice cream production.

First, a buildup to hyperplant scale is about to begin for the Conroe, Texas, milk plant. It was already one of the industry's most modern and cost efficient operations when Borden acquired it in 1989.

Second, a pair of hyperplants is planned for ice cream and frozen novelties, both to be developed from existing facilities.

Resurgence in Advertising

A sharp rise in advertising in 1990 will help stimulate Borden dairy growth and protect our valuable brand franchises. We'll spend more dollars, and we'll focus them within a smaller geography.

At the start of 1990, we broadened the showing of new television commercials over all of our regional markets, after testing them thoroughly the prior year. They're designed to reinforce consumer preference for our branded dairy products.

Later on, another series of commercials will feature ***Elsie*** reminding consumers of the quality and nutritional benefits of the division's milk and other dairy products.

Extensive television advertising is an exciting and major shift for Borden. In the past, we've relied far more heavily in dairy on radio and print ads, along with consumer and retailer promotions.

Rapid Introduction of New Products

More advertising and promotion will also be channeled to support the stepped-up flow of new products from Borden dairy – products largely aimed at health-conscious consumers looking for less fat, less cholesterol and fewer calories.

Borden is building brand loyalty and reinforcing consumer preferences for its dairy products by launching a major television advertising campaign over all of its regional dairy markets. John Rutan (left), director of sales and marketing for the Dairy Division, reviews television story boards for *Borden Lite-line* commercials set to air in the latter half of 1990.

U.S. consumption of 1% and 2% lowfat milk continues to grow – up an estimated 4% in 1989 – while industry sales of skim milk soared about 13%. Well ahead of that average was Borden's protein-fortified skim milk, sold under the ***Lite-line*** and ***Viva*** brands, and featuring a richer look and much better taste than regular skim milk.

A family of products sweetened with aspartame to reduce calories – ***Borden Light*** and ***Viva*** chocolate lowfat milk, nonfat yogurt and frozen novelties – has been equally successful.

We've had tremendous consumer response as well for ***Borden Light*** and ***Meadow Gold Light*** premium ice milks, with much of the taste of ice cream but 33% less fat.

One of our newest introductions is ***Borden*** and ***Meadow Gold*** premium frozen yogurt. Another alternative to ice cream, it provides the goodness of yogurt – including fewer calories and less than one-third the fat of ice cream – and a rich and creamy taste. Frozen yogurt pops are scheduled for launch early in 1990.

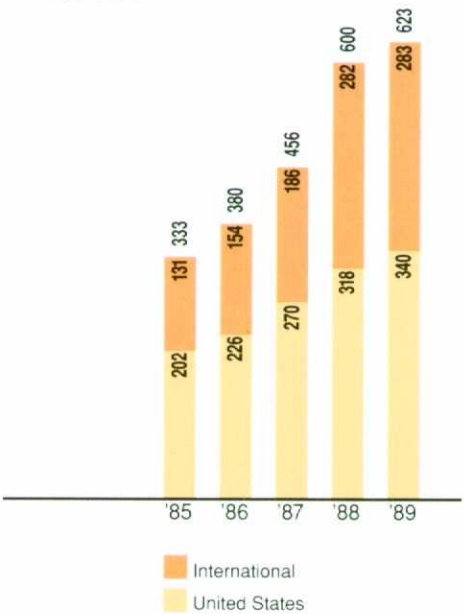
And for those who are less calorie conscious, in 1989 we introduced ***Lady Borden*** and ***Meadow Gold*** premium brownie ice cream sandwiches. They've already gained strong consumer acceptance.

Fashionable wallcoverings from Borden.

5 NON-FOOD CONSUMER

Borden wallcoverings and consumer adhesives each hold industry-leading positions in the growing do-it-yourself home improvement market. In wallcoverings, we are the world's number one producer. In consumer adhesives, the best-selling *Elmer's* product line has been strengthened by the recent addition of rights to *Krazy Glue* instant glues.

Non-Food Consumer Sales
in millions of dollars
Continuing Operations



Borden's non-food consumer business has nearly doubled in sales since 1985, and it is focused increasingly on two do-it-yourself product lines: wallcoverings and consumer adhesives.

Rapid growth over the past three years has made Borden the world's largest manufacturer of wallcoverings, with production in the United States, United Kingdom, Canada and West Germany, and an extensive distribution network in France.

In the consumer adhesives area, Borden's leadership through the ***Elmer's*** product line was strengthened recently with the addition of the best-known name in instant glues, ***Krazy Glue***, through a joint venture.

Consumer Adhesives Strength
The ***Elmer's*** brand has long been a do-it-yourself favorite both in the United States and abroad, and the best-known name in household glues. The ***Elmer's*** line has been extended to include more than 80 different specialty and professional adhesives, contact cements, caulks and sealants, home repair grouts and spackling compounds.

A special "Elmer's – The Home Solution" marketing program is boosting ***Elmer's*** brand recognition in the do-it-yourself home improvement market and increasing sales through mass merchandisers, hardware stores and home improvement centers.

Now, the best-known name in instant glue, ***Krazy Glue***, offers additional potential for growth.

Elmer's and ***Krazy Glue*** have been linked through a joint venture of Borden and Toagosei Chemical Industry Company Ltd., the Japanese manufacturer of ***Krazy Glue***. The joint venture has rights to ***Krazy Glue*** brand for North America, Central America and most of South America. Borden is now marketing ***Krazy Glue*** products alongside the ***Elmer's*** line.

Elmer's glues and home improvement products are now linked with ***Krazy Glue***, the best-known name in instant glues.

Elmer's is America's favorite brand of household adhesives.

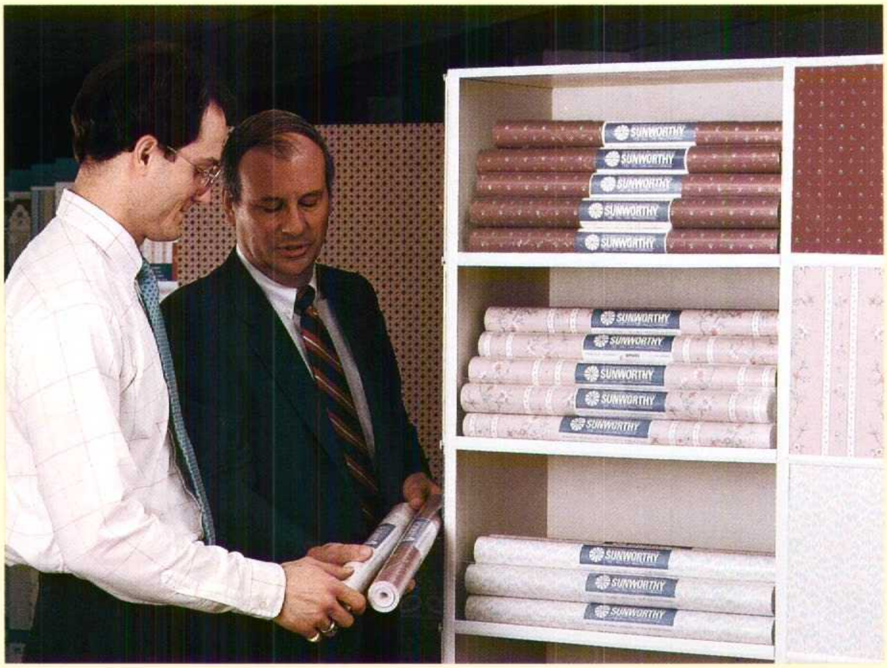
Wallcovering Leadership, Worldwide
Borden's leadership in the wallcovering business is founded on strong manufacturing operations in four countries:

- United States – Columbus Coated Fabrics is one of the world's largest producers of fabric-backed vinyl wallcoverings. It sells through Borden's Columbus Wallcovering Company to commercial accounts, while Borden's Sunwall of America unit markets all residential wallcoverings for Borden.
- Canada – Sunworthy is that country's number one wallcovering producer; a pioneer in prepasted, dry-strippable, paper-back wallcoverings; and a major exporter of wallcoverings to the United States with a growing retail market.
- United Kingdom – Crown/Storeys is the largest producer of printed wallcoverings; a leader in the manufacture of expanded and blown vinyl wallcoverings; and the number one wallcovering exporter worldwide, with markets in more than 50 countries. Crown Wallcoverings was complemented with the purchase of Storeys Decorative Products in 1988, which increased our share of U.K. sales in expanded and blown vinyl wallcoverings.
- West Germany – Borges, another 1988 acquisition, is a leading manufacturer in that country. It has some of the industry's most advanced technology and an extensive distribution network in Western Europe.

In addition, we have one of the premier high-fashion decorator wallcovering operations in the United States in Bob Mitchell Designs, which produces and sells its own ***Mitchell Designs*** brand and the ***James Seeman Studios*** line.

We expanded our industrial laminating film business in 1988 by acquiring Orchard Corporation of America, a producer of decorative printed overlays using state-of-the-art, computer-aided design technology. Orchard's products are used to decorate furniture, wallcoverings, floor tile and virtually every decorative surface in residential and commercial building interiors.

Borden is taking advantage of a market shift toward more and more do-it-yourself customers. As an alternative to ordering from books, customers can bring home in-stock wallcoverings today and hang their selection tomorrow. Ed Moss, field sales manager for Borden's Sunwall of America (right), meets with a wallcovering retailer to discuss Borden's in-stock wallcovering program.



Consolidation and Reconfiguration
Worldwide wallcovering sales softened in 1989, and the industry has begun to consolidate. Borden is in a strong position to benefit with its number one market position, design and production leadership, and fully integrated international production capabilities.

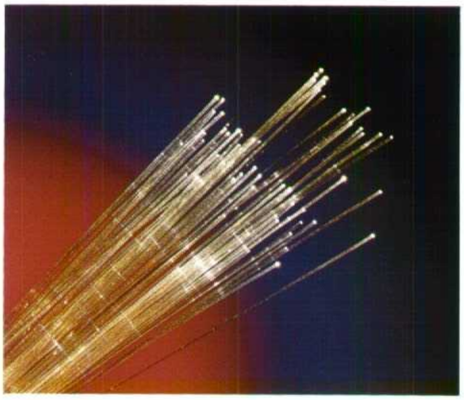
We moved quickly to realign our U.S., Canadian, U.K. and West German wallcovering operations to improve efficiency in everything we do. In the United States, distribution facilities were consolidated, reducing the number of warehouses from nine to five, and the sales and marketing function was reorganized to better match the needs of retail versus commercial customers.

Plant modernizations and consolidations during Phase Two will further reduce our production and distribution costs. A new high-speed finishing line is nearing completion at Sunworthy's Brampton, Ontario, plant, and other manufacturing operations are being rapidly improved worldwide.

Maintaining Market Leadership
Borden wallcoverings, including the popular ***Birge***, ***Borden Home Wallcoverings***, ***Borges***, ***Crown***, ***Foremost***, ***Satinesque***, ***Sunworthy*** and ***Wall-Tex*** brands, are widely available to North American retail customers at the full range of wallcovering outlets, from traditional decorating centers to mass merchandisers and home improvement centers.

About 90% of U.K. wallcoverings are now purchased from bins at large do-it-yourself centers, rather than ordered from books at specialty stores for later delivery. A trend toward buying from stock is now accelerating in the United States. Borden is placing added emphasis on its already strong in-stock programs with major mass merchandisers, serving customers who wish to buy their wallcoverings today and hang them tomorrow.

Again, following Europe's lead, the North American market is also shifting to expanded and blown vinyl wallcoverings – a demand that Borden is well-equipped to supply from its expanded and modernized European manufacturing base.

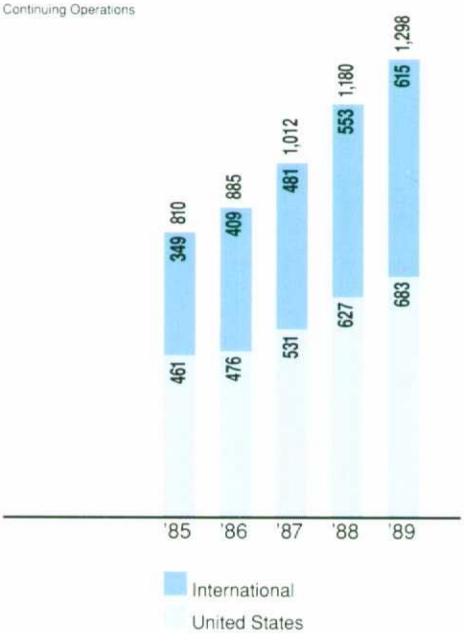


6 FILMS AND ADHESIVES

Borden is number one in the United States and the world in vinyl foodwrap films and forest products adhesives. Acquisitions have strengthened or helped establish leading positions in foundry materials and other industrial phenolic resins, specialty wood adhesives, and international plastic films and rigid packaging. Our high-technology coatings are leaders in fiber optics and other emerging market areas.

High-technology Borden coatings for fiber-optic glass.

Films and Adhesives Sales
in millions of dollars
Continuing Operations



Borden has established leadership positions in each of its five distinct films and adhesives businesses:

- Films and Plastic Packaging
- Forest Products Adhesives
- Industrial Resins
- High-Technology Coatings
- Specialty Wood Adhesives

Combined, our films and adhesives operations provide a balanced source of growth both among themselves and alongside Borden's consumer products.

Continued Growth in U.S. Films

The U.S. side of our film business is anchored by ***Resinite*** and ***Sealwrap*** vinyl stretch films. We sell them to supermarkets for use in wrapping fresh meats and produce as well as to food-service and institutional users.

Our rapid growth has come in industrial palletwrap and oriented polypropylene (OPP) food packaging films.

Resinite vinyl and ***Loadmaster*** polyethylene palletwrap films are replacing metal and nylon strapping to wrap cartons, containers and other products. To serve a fast growing market for ***Loadmaster*** one-sided-cling film, we added manufacturing capacity in 1989 at North Andover, Massachusetts, and have another expansion set at our Gainesville, Texas, plant for early 1990.

In food packaging, ***Proponite*** OPP films are replacing cellophane and other films in packaging snacks, pasta, baked goods and confections as well as in a variety of non-food and industrial uses. We're adding now to our capacity for ***OPPtimum***, a polypropylene film with excellent light and oxygen barrier properties as well as other performance pluses.

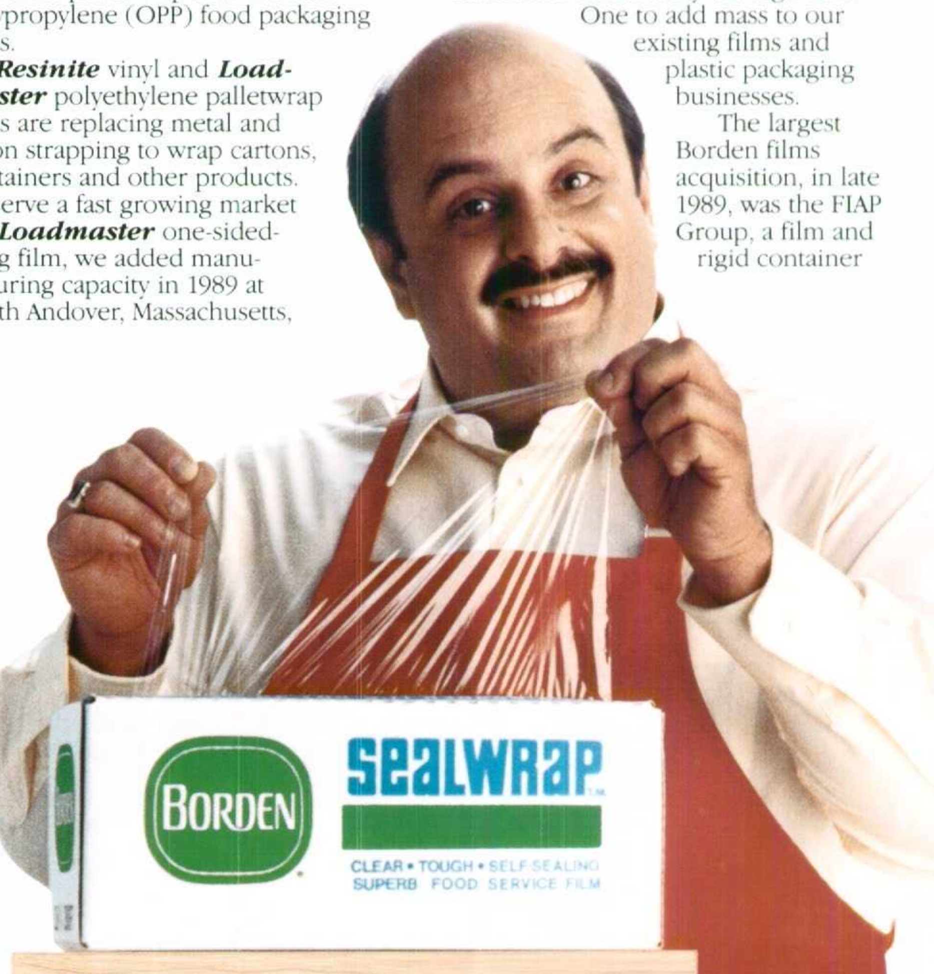
European Buildup In Films and Packaging

Internationally, Borden has films and packaging plants outside the United States in Canada and countries in the European Economic Community, Latin America and the Far East.

We moved quickly in the European Economic Community during Phase One to add mass to our existing films and plastic packaging businesses.

The largest Borden films acquisition, in late 1989, was the FIAP Group, a film and rigid container

Borden produces a wide range of flexible films and rigid plastic packaging in the United States, Canada and nations in Europe, Latin America and the Far East.



Sealwrap is the leading brand of vinyl stretch foodwrap film used by restaurants, institutions and other foodservice businesses.

producer with plants in Italy, Greece, France and West Germany. FIAP meshes perfectly with Borden film operations in the United States, Belgium, France, Spain, Holland and the United Kingdom, and gives us a truly pan-European network in flexible films.

FIAP also complements our rigid packaging operations in France, Holland and the United Kingdom. These units make rigid containers for dairy products, carrier trays for cookies and confections, and dishes and trays for the airline and catering industries.

To reflect the pan-European nature of our operations and markets, we reorganized the business in 1989 along major product (rather than national) lines – food packaging film, rigid film and containers, and specialty films. The structure will allow us to maximize our production and marketing synergies and take full advantage of market unification within the European Economic Community by the end of 1992 – as well as new opportunities created by rapid change in Eastern Europe.

Phase One acquisitions in Australia have similarly strengthened a prior Borden position in packaging films, and further buildup in the Far East is planned.

Our films and adhesives plants, which already are low-cost producers, are improving their operating performance using the Borden SQP Program. Introduced in 1989 at several U.S. films and adhesives plants, Borden SQP has already scored some notable successes. Employees at Diboll, Texas, were our 1989 top achievers, improving in all three areas of the program (safety, quality and productivity) and spearheading a waste reduction system that's now being extended to our other U.S. films and adhesives plants.

Shown: Carl Kegler (left) and Larry Cheatham (right), resin operators.

Leader in Forest Products Adhesives

Borden today is the world's largest producer of forest products adhesives. We have 27 plants worldwide, strategically located adjacent to or near major customers and centers of the forest products industry. In addition to our North American operations, Borden has plants in Europe, Latin America and the Far East.

These are highly efficient operations. They cut costs through economies of scale in raw material purchasing, state-of-the-art process technologies and distribution efficiencies.

Perkins Industries in 1987 was a significant Phase One acquisition. It strengthened our position particularly in the U.S. Southeast market for forest products adhesives.

The objective in Phase Two is to enhance our status as the industry's preferred supplier, enabling us to better maintain production levels and weather the economic cycles of the housing, building products and construction industries.

Development of improved adhesives is one way to stay on top, and Borden's mass in the business allows us to continue to devote significant funds to research and development. Several recently issued patents underscore Borden's position as the leader in adhesives technology. Our customers benefit from new adhesives we develop to bind together a changing mix of wood varieties, and from our ability to tailor products for their particular needs.

Expanding in Other Products

Borden has grown to be the second-largest U.S. producer of foundry materials, thanks to acquisitions such as Acme Resin in 1986 and the Thiem business in 1989.

The patented ***ALpHASET*** and ***Betaset*** advanced resin binders, invented in Borden's U.K. laboratories, have also driven our growth. They are widely considered in the foundry industry to be the most significant new technology of recent years. More than 1,000 foundries worldwide have adopted them.

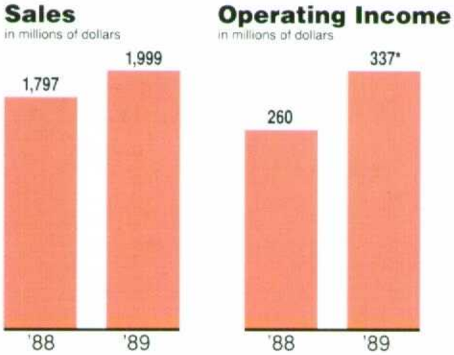
The Borden focus in other parts of the industrial resin business is advanced phenolic engineering resins for aerospace, automotive and electronics applications.

In high-technology coatings, we have a similar focus on proprietary systems. Recent Borden innovations have led to several unique and promising applications: the manufacture of printed circuit boards, and the protection of the glass fibers in fiber-optic cables, a rapidly growing market.

The specialty wood adhesives produced by Borden are widely used in the furniture and building products industries. Perkins Industries, in addition to forest products adhesives, brought us a highly regarded, complementary line of specialty adhesives.

Grocery and Specialty Products Division

(The following comparisons exclude the effect of the one-time charge to operating income.)



*excludes effect of reconfiguration charge

Division sales advanced by 11.2% and operating income by 29.3% in 1989, reflecting strong gains in each business area: pasta, niche grocery products and non-food consumer products.

Pasta
Borden U.S. pasta sales increased 9% in 1989, and income jumped 30%, paced by ***Creamette***, Borden's flagship brand and the industry's only national brand. ***Creamette*** achieved a new high for share of industry sales – over 12% – and now ranks number two nationwide.

Domestic pasta performance also benefited from strong gains by the ***Prince***, ***Luxury***, ***Merlino's***, ***Gioia***, ***Vimco*** and ***Ronco*** regional pasta brands.

A 24% brand volume gain was achieved during Borden's first full year as sole U.S. distributor of ***DeCecco***, the leading premium imported Italian pasta.

To enhance consumer preference for ***Creamette*** and Borden's other pasta brands, a major print advertising campaign was launched in February 1990. Selected markets also will receive heavy television advertising.

In October 1989, Borden introduced ***Creamette*** microwave elbows, the first of a family of unique microwave pastas based on new patent-pending technology developed by Borden. Three additional microwave pasta shapes are scheduled for introduction early in 1990.

Niche Grocery Products
The division's domestic niche grocery sales increased 15% in 1989, and operating income rose 26%. The sales advance reflected the full-year impact of 1988 foodservice acquisitions, a 23% dollar increase for ***Classico*** premium pasta sauce, and gains in ***Aunt Millie's*** pasta sauce, ***Borden*** and ***Lite-line*** cheeses, ***Wyler's*** bouillon and ***Soup Starter*** dry mixes.

Niche grocery products benefited from a restructuring of the national broker sales organization from two to five groups that more tightly focuses sales and marketing support.

The annual "Home for the Holidays" nationwide sales promotion also buoyed results, helping ***Eagle Brand*** sweetened condensed milk (the group's flagship brand and the original invention of Gail Borden), ***ReaLemon*** lemon juice and ***None Such*** mincemeat to strengthen their number one market positions.

Cheese products posted a 6% sales increase in 1989, with ***Borden*** single-wrap slices leading the way with record sales for the year and an annual growth rate that exceeded the industry by more than 20%. Results benefited from the successful introduction of ***Borden Light*** and ***Thick*** single-wrap varieties and the selected market introduction of cheeses under the ***Meadow Gold*** brand. ***Lite-line*** reduced fat and calorie cheese and ***Sandwich-Mate*** reduced cholesterol cheese substitute maintained the number one spots in their respective U.S. market categories.

Classico pasta sauce solidified its position as the leading domestic premium pasta sauce with the 1989 introduction of three new flavors. ***Classico*** sauce holds a 7.5% share of industry pasta sauce sales nationwide and is the third-leading brand overall.

Aunt Millie's spaghetti sauce also posted a strong gain for the year, bolstered in its Northeastern regional market by the introduction of a new line of "Family Style" products.

In specialty seafood products, Borden introduced ***Ocean Fresh***, the first and only line of pasteurized premium crabmeat sold in the refrigerated deli case. Canned minced and chopped clams, marketed under the ***Snow's***, ***Doxsee*** and ***Orleans*** brands, achieved the top spot in their market category for the first time in 1989.

Fruit products dollar sales advanced 5% in 1989, reflecting the acquisition of ***Vermont Maple Orchards*** and ***MacDonald's*** pure maple syrups. Adding these brands to the ***Cary's*** brand, which Borden already marketed, made Borden the U.S. leader in pure maple syrup. The same acquisition added ***Pride of Canada*** pure maple syrup and ***Milk Mate*** liquid milk flavorings sold in Canada.

In 1989, the fruit products business introduced ***Bama Light & Fruity*** reduced calorie fruit spreads, which strengthened ***Bama*** brand's leading category position in the U.S. South. Sales gains in ***Bennett's*** sauces also contributed to the improved performance.

Borden is the number one producer of individual portion products for the fast-growing foodservice industry.

Bouillon and dry soup sales increased more than 7% in 1989 due in part to the introduction of four ***Wyler's*** and ***Steero*** flavors, the acquisition of ***MBT*** broth and the addition of two ***Soup Starters***: ***Minestrone Starter*** and chicken and rice flavor ***Soup Starter***.

Cremora Lite non-dairy creamer was introduced in September as an alternative for health-conscious consumers. ***Cremora Lite*** is the first national brand of non-dairy creamer made without tropical oils and contains 70% less saturated fats.

Triple packs of ***Cracker Jack*** caramel popcorn remained the best-selling item in its grocery category.

Foodservice and industrial food products sales doubled in 1989, reflecting the full-year impact of the 1988 acquisitions of Serv-A-Portion, Gregg/Re-Mi Foods and McCormick's foodservice business and growth of the base business. In 1989, Borden added ***Pitch 'R Pak***, a producer of individual portion packets of dessert toppings.

Two industrial products units were divested in 1989: Indio, a California lemon processing operation, and Galloway-West, a group of three industrial dairy ingredients and Swiss cheese businesses.

Non-Food Consumer

Non-food consumer sales increased 14% in 1989, and income was up 13%.

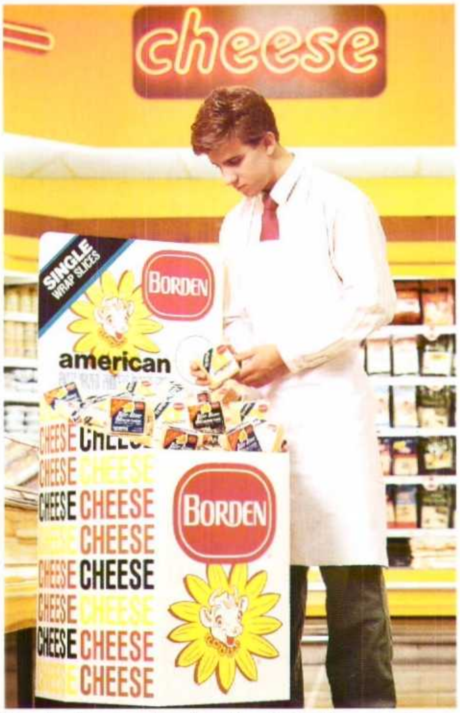
Elmer's household, school and professional glues and adhesives maintained their leading market position.

In early 1990, Borden complemented the ***Elmer's*** line by the addition of ***Krazy Glue***, the best-known brand of instant glue. A new joint venture of Borden and Toagosei Chemical Industry Co., Ltd. of Japan acquired rights to ***Krazy Glue*** adhesives for North America, Central America and most of South America. Toagosei, a major producer of high-technology adhesives, manufactures ***Krazy Glue*** in Japan. The Borden Home and Professional Products Group is distributing ***Krazy Glue*** for the joint venture alongside Borden's ***Elmer's*** family.

At year end, Borden reached an agreement to divest the ***Krylon*** aerosol paints and coatings business.

Canada

Division sales in Canada more than doubled in 1989. Sales were up 16% for the base niche grocery and non-food consumer products, including ***Eagle Brand*** condensed milk, ***ReaLemon*** lemon juice, ***Snow's*** canned seafood and ***Elmer's*** adhesives. The principal sales gain, however, reflected the June 1989 addition of Catelli, Canada's leading supplier of pasta and pasta sauces. Catelli significantly expands Borden's presence in the Canadian food business. It sells to the retail and foodservice markets under the ***Catelli***, ***Romi*** and ***Splendor*** dry pasta brands and the ***Di Parma*** and ***Nelia*** brands of fresh pasta.

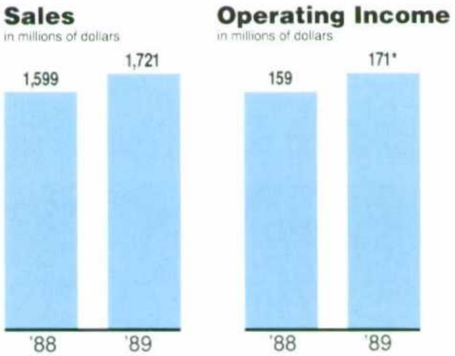


Borden's growing family of single-wrap cheese posted record results in 1989.

The acquisition of Catelli in June 1989 gave Borden the number-one-selling brands of pasta and pasta sauce in Canada.

Snacks and International Consumer Products Division

(The following comparisons exclude the effect of the one-time charge to operating income.)



*excludes effect of reconfiguration charge

Division sales increased 7.7% in 1989, and operating income rose 7.2%. Sales of domestic operations rose 7.0% to $975.8 million, while operating income fell 6.7% to $76.1 million, due to higher marketing spending and higher costs for commodity raw materials. International sales were up 8.6% to $745.4 million, and income advanced 21.8% to $97.3 million.

Domestic Operations

Snacks

Although North American snack sales were ahead of 1988, profit margins were squeezed by two factors: First, higher costs were incurred for raw materials, especially potatoes; and second, marketing expenditures were stepped up to counter increased competition from two new national snack producers.

Borden strengthened its position as the number two North American snack producer with the 1989 acquisition of Moore's Quality Snack Foods, Inc., which markets a full line of snacks in the southern and southcentral United States.

Humpty Dumpty Foods Limited, which markets snacks in eastern Canada, had a record year in 1989. Sales were bolstered by its successful introduction of ***Cheez Doodles*** snacks. The Snacktime, Wise, Jays, Guy's, Clover Club and Seyfert units also reported higher sales in 1989.

Borden continued its successful rollout of ***Krunchers!*** premium potato chips, with sales dollars up 50% from 1988. ***Krunchers!*** chips are now available in 25 states, including most of the Midwest and much of the Wise network on the East Coast. Further rollouts are upcoming in 1990.

Sales of ***Super Crispy Ridgies*** rippled potato chips, introduced in 1988, were successfully expanded during 1989.

La Famous tortilla chips also achieved strong sales gains in 1989. Borden plans to introduce new premium tortilla products throughout its national snack network during 1990.

Ready-to-eat popcorn turned in a record year with dollar sales jumping 22% from 1988. Borden strengthened its number one share of sales in the fast-growing bagged popcorn product line with the 1989 launch of ***Wise Choice*** premium popcorn in no salt and white cheddar varieties.

To reduce costs, a snack plant in Milwaukee, Wisconsin, was closed at midyear, and a plant in Dallas, Texas, was being phased out at year end. Production from each was consolidated into larger, more efficient plants.

Coco Lopez Sales

Sales for 1989 declined slightly from the prior year, reflecting a loss in business when Hurricane Hugo struck in September in the Caribbean, one of the principal market regions for ***Coco Lopez*** cream of coconut. The brand continued to dominate its category with over 50% share of supermarket sales. Foodservice sales achieved record levels during the year.

Puerto Rico

Operating income held steady in 1989, even though sales were down because of the 1988 divestment of part of the business (frozen foods distribution) and the impact of Hurricane Hugo.

Caribbean Snacks posted record sales and income in 1989, benefiting in part from the midyear introduction of ***Krunchers!*** chips. The Mantecados Nevada ice cream unit improved its profitability and leading market position, despite higher costs for milk and sugar ingredients. The ***La Famosa*** juices and nectars business was even with the prior year's performance. The food distribution business nearly matched its 1988 operating income, despite the frozen foods divestment.

Gallina Blanca in Spain successfully introduced a line of ***Hoy Menu*** pasta- and rice-based side dishes in 1989.

International Consumer Products

Milk Powder

Export volumes and sales reached record levels in 1989, as increased advertising for ***KLIM*** brand in many of the 85 countries where it is marketed reinforced its position as the second-leading brand of powdered milk worldwide.

KLIM milk powder achieved strong growth in established markets such as Taiwan, Singapore, Hong Kong, Zaire, Qatar, United Arab Emirates, Guatemala, Bolivia and Puerto Rico, and opened or re-established markets in Morocco, Sao Tome, Niger, Ivory Coast and Togo.

Record sales were posted in Colombia, where ***KLIM*** is produced for local consumption, and a project is under way to significantly increase production capacity in 1990. Panama also posted strong sales and income gains despite difficult market conditions. Sales of dairy products in Costa Rica, where a sales and marketing restructuring was completed in 1989, increased substantially as well.

Europe

Gallina Blanca, S.A., a Spanish affiliate, posted a record year in 1989. The company maintained its leading position in the Spanish dry soup and bouillon market and successfully launched several new products, including the ***Hoy Menu*** family of pasta- and rice-based side dishes and several new varieties of soups in aseptic packaging.

A major capital expansion is nearing completion at the company's San Juan Despi, Spain, processing plant, which will make it one of the most modern and lowest-cost facilities of its kind in the world.

The ***Crecspan*** salty snack unit in Spain reported significantly higher 1989 sales volumes, reflecting one of the fastest rates of category growth among European countries.

Sooner Snacks in the United Kingdom, acquired in 1988, contributed significantly higher sales and profits in the full year of 1989, performing well in the face of increased competitive pressures and higher raw material costs. Production capacity will be added in 1990.

Monder Aliment, S.p.A., a leading Italian marketer and exporter of dry-filled pastas, began shipping pasta

during 1989 to two other Borden companies: Gallina Blanca, as an ingredient in its successful ***Hoy Menu*** side dishes, and Catelli, adding complementary filled products to its already best-selling pasta line in Canada.

Sales and income in the West German sweet baked snacks and specialty breads operations declined slightly in 1989. Headed by the Wilhelm Weber GmbH commercial bakery, the business made two small but strategically important acquisitions during the year – the Gross bakery of Bensheim, a commercial bakery that provided added production capacity and several new types of products; and Kuchen-Betz, a retail bakery chain serving Nuremberg.

In Denmark, the ***Cocio*** bottled chocolate milk business strengthened its top market position with the acquisition of ***Congo***, another leading brand of bottled chocolate milk.

Sales of ***ReaLemon*** lemon juice improved with the introduction of a reformulated product that has won solid consumer acceptance. ***ReaLemon*** is now sold to all of the Scandinavian nations and to more than half of the countries in the European Economic Community.

In early 1989, Borden divested its Suzy waffle business in Belgium.

Far East

The division manages both consumer and non-consumer businesses in the Far East.

Meiji-Borden, Inc., a joint venture company that is Japan's second-largest producer of individually wrapped cheese slices, had lower sales and contributed less income for 1989 as a result of higher raw milk costs.

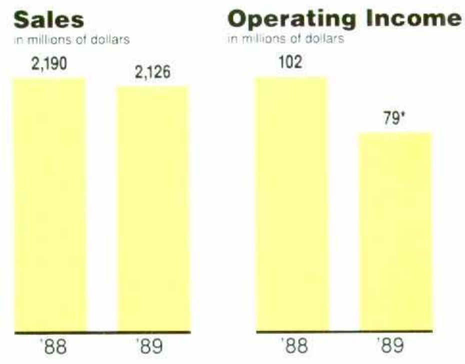
Lady Borden and ***Borden Home Made*** ice creams, which are manufactured under license by Meiji Milk Products Co., continued to maintain their 70% share of Japan's premium/superpremium ice cream sales in 1989. Despite stiff market competition and a lower value for the yen versus the dollar, ***Borden Home Made*** superpremium ice cream posted a 1989 sales increase of nearly 20%.

Sales of forest products adhesives and industrial resins advanced in Australia, buoyed by strong commercial and residential building activity. In the Philippines, forest products operations were hurt by higher raw material costs, political unrest and electrical power disruptions. Malaysian chemical sales advanced, while snack operations in that nation made considerable progress during the year.

Hitachi-Borden Chemical Products, Inc., a vinyl film manufacturing joint venture in Japan, held its 1989 sales at 1988 levels despite the lower value of the yen versus the dollar. New vinyl film capacity brought onstream in late 1988 resulted in improved product quality and production efficiency.

Dairy Division

(The following comparisons exclude the effect of the one-time charge to operating income.)



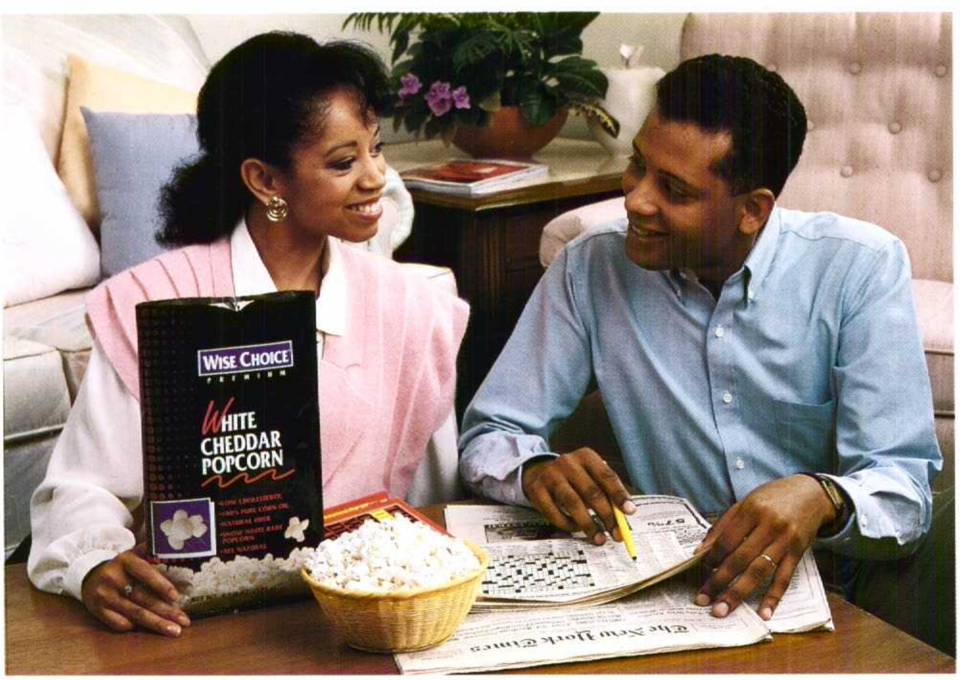
*excludes effect of reconfiguration charge

Dairy division sales declined 2.9% in 1989, and operating income fell 23.1% from the prior year levels.

Dairy profits were squeezed throughout 1989 by the largest annual increase in raw milk costs in more than 20 years. Raw milk costs were fueled by reduced dairy herds and higher feed costs to dairy farmers, which resulted from the 1988 drought, compounded by strong competing demand for raw milk for the production of bulk cheese and non-fat dry milk.

Consumer resistance to higher milk prices, and intense industry competition resulting from substantial overcapacity, prevented higher raw milk costs from being recovered in product prices.

Borden took aggressive steps at the end of 1988 and in early 1989 to cut costs, including an administrative streamlining, headcount reduction and production consolidations. Dairy division



Borden added to its industry-leading position in bagged popcorn with ***Wise Choice*** premium no salt and white cheddar popcorn in 1989.

Borden sales of reduced fat frozen desserts were led by ***Borden Light*** and ***Meadow Gold Light*** premium ice milks.

headquarters was moved in early 1989 from Houston, Texas, to Columbus, Ohio, where Borden's other operating divisions are located.

Division Downsized
In September 1989, the most widespread dairy restructuring in Company history was announced. The division is exiting from overcrowded fluid milk and cultured products markets in the eastern, southeastern and midwestern United States.

A total of 14 fluid milk plants in 10 states were announced for sale as ongoing operations. Six other facilities in the withdrawal region were closed during or just after the fourth quarter.

Borden retains fluid milk and cultured products operations in its strongest growth markets in the South and West, including nearly as many ***Meadow Gold*** as ***Borden*** brand operations. The division also continues to provide ice cream and other frozen desserts and novelties over most of its original market area.

In December 1989, the division sold its butter group, which had been acquired in late 1986 as part of the acquisition of Meadow Gold Dairies, Inc. The butter group consisted of retail and foodservice butter and a dairy-based food ingredients operation.

Further steps were taken in late 1989 and early 1990 to reconfigure production within the ongoing dairy regions. Three plants were consolidated with other facilities to reduce costs and improve productivity.

Borden and ***Meadow Gold*** 96% fat-free premium frozen yogurts were introduced in 1989 with outstanding consumer response.

In Houston, Texas, where Borden already operates an ice cream hyperplant, the division in September 1989 acquired from Kroger Co. one of the most modern, well-equipped and cost-efficient dairy plants in the country. An expansion of this plant to hyperplant status will help meet the growing demand for Borden dairy products in southern Texas.

Increased Marketing Effort
The division tested a regional television advertising campaign in 1989 in Southern and Northern markets to promote its dairy brands and support newly introduced reduced fat and calorie dairy products. A greatly expanded campaign is set for 1990.

One of the principal new products to be supported is protein-fortified skim milk, under the ***Lite-line*** and ***Viva*** brands. These milks offer the look and taste of whole milk without the fat and with fewer calories. ***Lite-line*** and ***Viva*** protein-fortified skim milks already have increased Borden skim milk sales by 22%, with only limited advertising and marketing support.

Sales also were strong in 1989 for four other new product lines:

- Reduced calorie, sugar-free dairy products, including ***Borden Light*** and ***Viva*** nonfat yogurt, chocolate lowfat milk and frozen novelties.
- Reduced fat frozen desserts, led by ***Borden Light*** and ***Meadow Gold Light*** premium ice milk.
- ***Borden*** and ***Meadow Gold*** premium frozen yogurts, which have fewer calories, less cholesterol and less than half the fat of premium ice cream.
- Premium ice cream brownie sandwiches, introduced with outstanding consumer acceptance in mid-1989 under the ***Lady Borden*** and ***Meadow Gold*** brands.

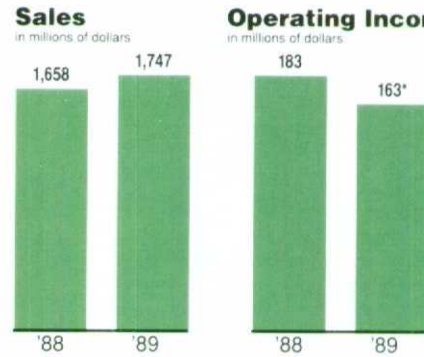
The division plans to increase sales of both premium ice milks and premium frozen yogurts in 1990 as new flavors are introduced.

Elsie, Borden's beloved corporate spokesperson and one of the most widely recognized company symbols, also continued to play a major role in the division's marketing efforts. For over 53 years, ***Elsie*** has stood for the quality and wholesomeness of Borden products.

She kept up a busy schedule of visits during 1989 to children's hospitals, parades, conventions, and civic and trade events. In 1990, she will bring her message to millions more consumers through the division's expanded regional advertising campaign.

Packaging and Industrial Products

(The following comparisons exclude the effect of the one-time charge to operating income.)



*excludes effect of reconfiguration charge

Worldwide operating income declined 10.9% on a sales gain of 5.4% in 1989. The income decline was due largely to Borden's reduced ownership interest in Borden Chemicals and Plastics Limited Partnership and lower earnings in worldwide wallcoverings. The declines were offset partially by strong results in the North American forest products adhesives, high-technology coatings and industrial resin businesses, as well as improvements in Europe both in industrial products and in plastic films and packaging.

The division's domestic sales increased 2.3% to $1,141.0 million for the year, while operating income declined 16.6% to $122.2 million. International sales increased 11.6% to $606.2 million in 1989, while operating income improved 12.5% to $40.6 million.

Borden offers a full line of specialty foundry materials including its patented ***ALpHASET*** and ***Betaset*** resin binders.

Division Domestic and International

Domestic Operations

Films and Adhesives

Though packaging films posted slightly improved 1989 sales, Borden marketing initiatives to counter increased competition from domestic and foreign film producers held back profitability.

Borden remains the world's leading producer of vinyl stretch foodwrap films, sold under the ***Resinite*** and ***Sealwrap*** brands to supermarkets, restaurants and other foodservice outlets.

In the expanding market for plastic palletwrap film, volume was up for ***Loadmaster*** linear low-density polyethylene film. The division added capacity for one-sided cling film, the fastest growing segment of that market, at its North Andover, Massachusetts, facility in 1989 and has another expansion under way at its Gainesville, Texas, plant set for completion in early 1990.

Record sales were achieved in 1989 for ***Proponite*** polypropylene film, which is widely used to package snacks, pasta, baked goods, candy and other foods. A capacity expansion is under way for ***OPPtimum*** aluminum metallized films, following their successful introduction in 1988.

Income in the U.S. adhesives businesses improved in 1989, even though there was a modest decline in sales resulting from the midyear divestment of the packaging adhesives portion.

Sales remained strong to the forest products industry – by far the major customer for Borden adhesives – bolstered by the introduction of several new products.

In an asset exchange for packaging adhesives, the division acquired the Thiem foundry materials business, which complemented the existing foundry materials portion of its industrial resins operation. Borden's complete line of specialty foundry materials is highlighted by the industry's most advanced resin binders, the patented ***ALpHASET*** and ***Betaset*** systems.

Sales of foundry and other industrial phenolic resins advanced strongly in 1989. Borden resin-coated sand also gained increased acceptance in oilfield fracturing to stimulate oil and gas production. Borden offers the industry's broadest range of industrial phenolic resins and is increasing capacity for specialty phenolic grades, such as high-purity resins for the computer industry.

The division's high-technology ***LUV*** coatings also posted strong sales and earnings improvements in 1989. The coatings are used in the manufacture of printed circuit boards and fiber-optic cable and as alternatives to conventional adhesives in bonding or laminating glass, ceramics and metals.

Wallcoverings

U.S. wallcovering sales and income were hurt by intense price competition, resulting from industry overcapacity and inventory reductions.

The domestic wallcovering unit expanded its in-store stocking programs with mass merchandisers in 1989, and revamped its sales and distribution system to better serve the needs of retail and commercial customers. ***Wall-Tex*** remains the best recognized brand among retail consumers, commanding a premium price.

Borden leads the European wallcovering industry with its Crown and Storeys units in the United Kingdom and its Borges unit in West Germany. Results in 1989 were held back by a slowing in much of the European economy and lower home improvement expenditures in the United Kingdom.

Sunworthy Wallcoverings in Canada was affected by a stronger Canadian dollar versus the U.S. dollar. In 1989, Sunworthy increased its market share in both the home decorator center and mass merchant segments of the retail wallcovering market. Completion of a new high-speed finishing line is expected in early 1990 at its Brampton, Ontario, facility. Similar projects to automate and modernize manufacturing operations are under way worldwide.

Basic Chemicals and Plastics

Borden formed Borden Chemicals and Plastics Limited Partnership, a publicly traded partnership, in 1987 to acquire and operate its basic chemicals and polyvinyl chloride resins businesses. Borden retained a 25% interest in the Partnership until December 1988, when it reduced its ownership to a 2% general partner interest. The decline in the Partnership's 1989 contribution to Borden income was due primarily to this reduced ownership interest.

International

Europe

The European plastic films and packaging business posted higher 1989 sales and income, reflecting acquisitions and gains in base businesses in Holland, the United Kingdom and France.

In anticipation of market unification within the European Economic Community by year-end 1992, the business was reorganized in 1989 along major product lines – ***Resinite*** food packaging films, rigid film and containers, and specialty films – replacing national marketing approaches.

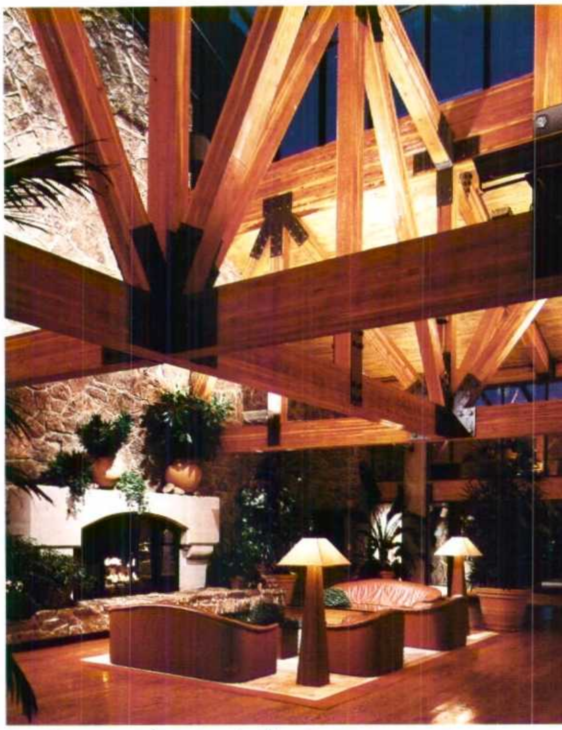
Borden broadened its plastic films and rigid packaging presence in 1989 by acquiring the FIAP Group, based in Milan, Italy. FIAP manufactures vinyl and polypropylene films and rigid containers in Italy, Greece, Germany, France and the United States, and provides plastics design, engineering and technology licensing worldwide.

Borden also acquired in 1989 the assets of 4P Drukkerij Reclame, a small Dutch producer of plastic margarine containers, strengthening its already leading position in Holland's rigid food packaging market.

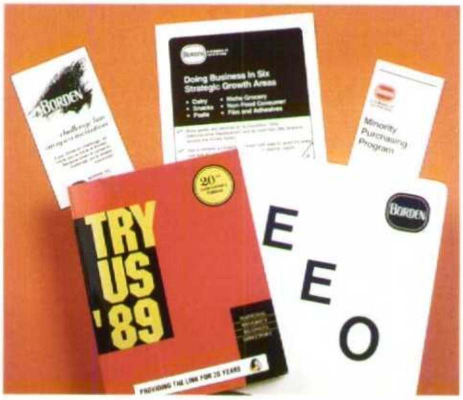
Income also improved in industrial products operations. Borden manufactures forest products adhesives in the United Kingdom and Spain and supplies foundry resins and equipment from operations in France, Spain and the United Kingdom.

Latin America

Sales and operating income increased in the Brazilian operations, which include plastic films, forest products and household adhesives, foundry materials and pasta, despite the hyperinflationary national economy. The division's operations in Colombia and Ecuador also reported higher income in the face of high inflation.



Borden specialty wood adhesives were used in the laminated beams that support the roof of the Cheyenne Mountain Conference Resort in Colorado Springs, Colorado.



SOCIAL RESPONSIBILITY

Borden has a long-standing and deep commitment to social responsibility, which we demonstrate by action, including equal employment policies and practices, minority purchasing activities, contributions to a diversity of charitable organizations and pioneering programs to protect the environment.

Borden strives to be a responsible citizen, contributing to the well-being of society in general and to the benefit of the communities in which our people work and live.

Equal Employment Opportunity (EEO)

Our policy is to hire, train, promote, compensate and make all other employment decisions without regard to an individual's race, color, sex, age, religion, national origin or handicap.

We have affirmative action hiring and promotion goals at each Borden location as well as for the Company as a whole. The U.S. Department of Labor conducted affirmative action compliance reviews at 13 of these locations in 1989 and gave us favorable ratings at every one.

Borden acts quickly to implement its EEO programs within the companies and businesses we acquire, assuring that they have affirmative action plans and understand Borden's strong commitment to EEO. It's a major task – in 1989 alone, acquisitions brought more than 6,000 new employees into the Borden family.

In 1989, the percentage of women in the top four job categories (officials/managers, professionals, sales and technicians) rose to 12.3%, an increase of 11% over 1988. Minorities represented over 24% of our domestic workforce, well above the 18% national average, and representation of 11.4% in the top four job categories was about equal to the national average of 11.5%.

Minority Purchasing

Borden was one of the first companies in the United States to establish a minority purchasing program, back in the early 1970s, and the voluntary Borden program has grown increasingly strong.

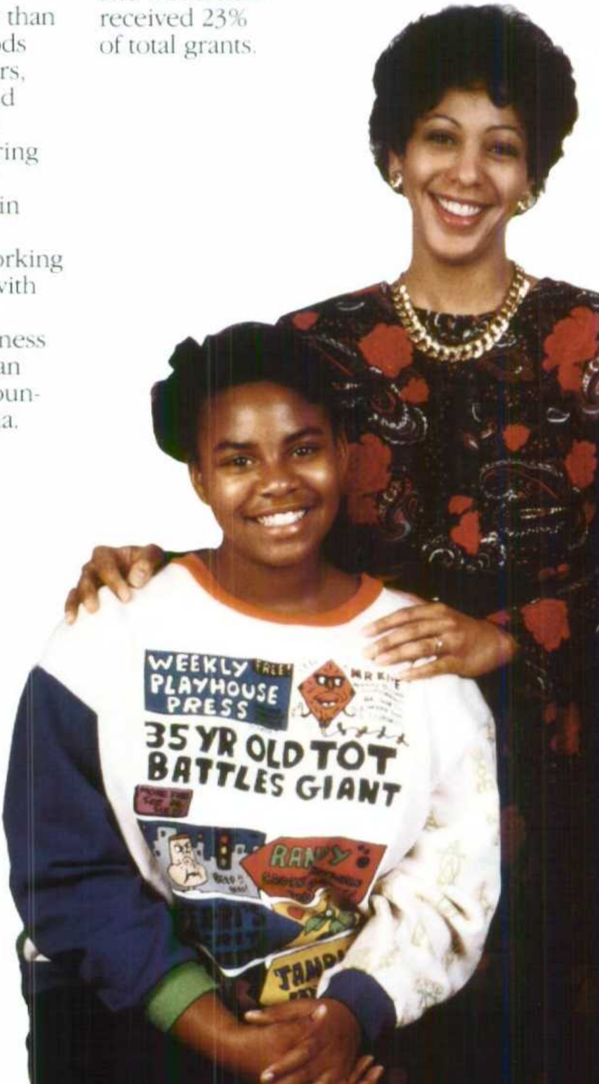
In 1989, Borden achieved more than 12% growth in its purchases of goods and services from minority suppliers, reaching $77 million. We acquainted more than 300 additional minority-owned firms with our program during the year through advertising, other communications and participation in major trade shows.

We are particularly proud of working relationships recently established with Native American suppliers, such as wheat purchases for our pasta business from farmers of the Jelo River Indian Reservation and from the White Mountain Apache Indians, both in Arizona.

Borden also channels significant tax payments through minority-owned banks. These payments increased 5% in 1989 to $68 million, representing 30% of our total tax payments.

Charitable Contributions

The Borden Foundation, established in 1944, serves as the principal conduit for the Company's charitable contributions. Of the Foundation's total grant dollars in 1989, 46% supported health and human services organizations, including federated drives such as United Way and United Fund agencies in 130 Company locations. Educational programs and institutions received 23% of total grants.



Sheri-Lynn Flowers, administrative secretary in Snacks and International Consumer Products, and John Peters, a corporate auditor, are Big Sister and Big Brother to Akilah Cochran and Seth Carter. The Big Brothers/Big Sisters Association of Columbus and Franklin County, Ohio, is one of the United Way agencies across the country supported by the Borden Foundation.

The balance was contributed to civic programs, youth organizations, and cultural and arts activities.

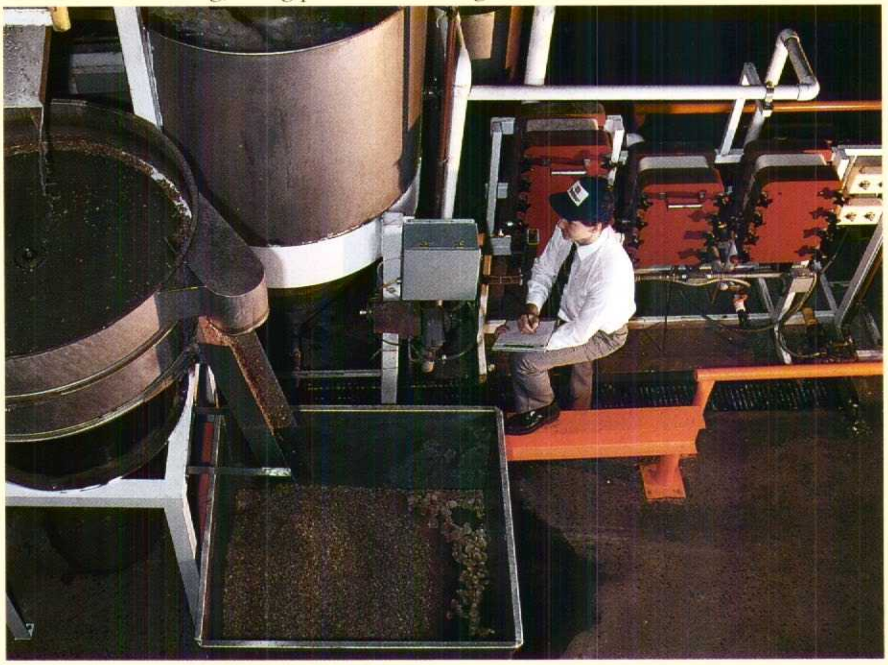
The Foundation continues to give special attention to disadvantaged children. Following the success of an inaugural program in 1988, the Foundation again provided funds in 1989 to National Urban League chapters in 10 cities across the country where Borden operations are headquartered or major plants are located. The funds will be used in 1990 to provide disadvantaged children of all ages with opportunities for enhanced health care, academic development or cultural enrichment.

Another focus of Foundation activity was helping the homeless. In 1989, it made substantial grants to various agencies in Columbus, Ohio (Borden's administrative headquarters city) that provide shelter especially for homeless families.

Contributions continued to advance, by another 7% in 1989, through the Borden Matching Gifts Program, which matches the donations of employees to educational and other charitable organizations.

The Wise Foods snack hyperplant in Berwick, Pennsylvania, uses a state-of-the-art system to recover potato starch (which results from its chip washing operations) from a water stream that would otherwise be discharged to the municipal wastewater treatment plant. The starch is sold, and the water is reused. The system pays for itself by eliminating effluent treatment charges, lowering the snack plant's intake of fresh water and generating substantial income from sale of the starch.

Shown: Ronald Young, acting production manager.



Matching gifts, like all Borden contributions, are designed to encourage our employees to be good citizens of their communities and to support their personal involvement in the organizations Borden helps to fund.

At Borden plants and other locations around the world, our people devote their time and energies, and apply their skills and expertise, to a wide range of worthwhile activities. Borden supports and encourages these volunteer efforts.

Environmental Protection

Borden works hard to safeguard the environment and comply fully with environmental laws and regulations.

We are an acknowledged leader in waste minimization – the process of reducing or even eliminating the generation of waste at the source.

Zero wastewater discharge has been achieved by three plants, for example, in our Packaging and Industrial Products Division. They use a sophisticated "closed-loop system" to recover unreacted phenol – a raw material for resins and adhesives – from a washwater stream. Then they reuse the phenol in plant operations.

Plans are under way to implement the closed-loop system at other facilities. It's an economic as well as an environmental success – reducing costs both for wastewater treatment and purchased raw material.

Several of our snack plants (see photo) have similarly turned a costly wastewater treatment problem into a profitable business, and sharply reduced the load on municipal treatment systems.

Principal Borden Products by Brand

Pasta

Creamette
Silver Award
DeCecco
(imported from Italy; distributed)
Pennsylvania Dutch

Regional:

Anthony's (Southern California, Arizona and Nevada)
Bravo (New York)
Dutch Maid (Northeast and Midwest)
Gioia (Upstate New York and Pennsylvania)
Globe A-1 (California)
Goodman's (Northeast and Miami)
Luxury (Gulf Coast)
Merlino's (Pacific Northwest)
Mrs. Grass (Chicago)
New Mill (Midwest)
Prince (Northeast and Midwest)
R-F (Midwest and Southwest)
Red Cross (Midwest)
Ronco (Southeast)
Vimco (Pennsylvania, Ohio and New York)

International:

Brazil – ***Adria***, ***Adria Italianissimo*** and ***Raineri***
Canada – ***Catelli***, ***Creamette***, ***Romi***, ***Splendor***, ***Di Parma*** and ***Nelia***
Italy – ***Albadoro*** and ***Monder***

Snacks

Borden cheese puffs, corn snacks and pretzels (canister)
Ranch Fries snacks
Krunchers! potato chips
La Famous tortilla chips, dips and salsa
New York Deli potato chips and other snacks
Seyfert's pretzels
Wise popcorn, dips and other snacks
Bravos tortilla chips
Cheez Doodles corn puffs
Cottage Fries potato chips
Pick Ups single-serve snacks
Ridgies rippled potato chips
Spirals crispy corn snacks
Wise Choice premium popcorn

Regional:

Buckeye potato chips (Ohio)
Clover Club potato chips and other snacks
El Molino and ***Little Pancho*** tortillas, chilis, sauces and spices (Mountain/Western)
Crane's potato chips (Illinois)
Geiser's potato chips and other snacks (Wisconsin)
Guy's potato chips, nuts and other snacks (Midwest)
Jays potato chips, popcorn, other snacks
O-ke-doke cheese-flavored popcorn (Illinois and Great Lakes)
Laura Scudder's potato chips, nuts and other snacks (California, Arizona and Nevada)
Moore's potato chips and other snacks (Virginia, West Virginia, Kentucky, Tennessee, North Carolina, South Carolina and Georgia)
Red Seal potato chips, ***El Dorado*** corn and tortilla chips, and ***Barrel 'O Fun*** snack products (Mountain)
Seyfert's potato chips, nuts and other snacks (Indiana and Michigan)
Snacktime pretzels, popcorn, dips and other snacks
Cain's, ***Chesty***, ***KAS*** and ***Kitty Clover*** potato chips
Cornies cheese puffs
Indian Brand corn chips
Pepitos and ***Tor-ticos*** tortilla chips (Midwest)
Wise potato chips and other snacks (East Coast and Texas)
Dipsy Doodles rippled corn chips (East Coast)

Puerto Rico:

Filler potato chips and other snacks

International:

Canada – ***Humpty Dumpty*** potato chips and other snacks
Ecuador – ***Crecs*** and ***K-Chitos*** potato chips and other snacks
Malaysia – ***Wise*** potato chips, other snacks
Spain – ***Crecs*** potato chips, other snacks
United Kingdom – ***Sooner*** snacks, ***Murphys***, ***Rileys***, ***Groovers*** and ***Primes*** potato chips, ***Nik-Naks*** corn sticks and ***Wheat Crunchies*** wheat snacks
West Germany – ***Weber***, ***Jaus***, ***Nur Hier***, ***Nuschelberger***, ***Stefansback***, ***Gross*** and ***Kuchen-Betz*** sweet baked snacks and specialty breads

Niche Grocery

Bennett's sauces
Borden egg nog
Borden aseptic flavored milks
Borden process cheese and process cheese substitute products
Lite-line cheese products
CheezTwo process cheese substitute
Campfire marshmallows
Cary's maple syrup
Classico pasta sauce
Coco Lopez cream of coconut and fruit drink mixes
Cracker Jack caramel-coated popcorn and peanuts

Cremora and ***Cremora Lite*** non-dairy creamer
Doxsee chowder and clam products
Eagle Brand sweetened condensed milk
Fisher cheese substitute products
Sandwich-Mate slices
Ched-O-Mate, ***Pizza-Mate***, ***Salad-Mate*** and ***Taco-Mate*** shredded products
Harris canned crabmeat and specialty soup products
Hilton's oyster stew and chowders
Kava acid reduced instant coffee
MacDonald's maple syrup
MBT broth
Meadow Gold process cheese
None Such mincemeat
Ocean Fresh pasteurized crabmeat
Orleans and ***DeJean's*** canned seafood products
ReaLemon lemon juice from concentrate
ReaLime lime juice from concentrate
Serv, ***Americana***, ***Chatsworth*** and ***Pitch 'R Pak*** individual portion control products
Snow's chowders and clam products
Soup Starter, ***Stew Starter***, ***Chili Starter***, ***Chowder Starter*** and ***Minestrone Starter*** dry mixes
Steero bouillon and broth products
Vermont Maple Orchards maple syrup
Wyler's bouillon

Regional:

Aunt Millie's spaghetti sauce (Northeast)
Gioia spaghetti sauce (Upstate New York)
Prince spaghetti sauce (Northeast and Midwest)
Bama jams, jellies and preserves, aseptic fruit drinks, syrup, peanut butter and mayonnaise
Lite & Fruity low calorie fruit spreads (Southeast and Southwest)
Country Store instant mashed potatoes (Midwest and Southwest)
Cutcher canned seafood products (Wisconsin and Utah)
Dime Brand sweetened condensed milk (Southwest)
Ever Fresh fruit freshener (Mountain and Western)
Gregg's and ***Re-Mi*** foodservice mayonnaise, salad dressings and soup bases (Midwest, Southwest and West Coast)
Laura Scudder's natural peanut butter (Mountain, Western and Texas)
MCP pectin (Mountain and Western)
Magnolia Brand sweetened condensed milk (New York and Miami)
Mrs. Grass soup and dip mixes (North Central)

Puerto Rico:

Borden cheeses
Coco Lopez cream of coconut and fruit drink mixes
La Famosa juices and nectars

International:

Belgium – ***ReaLemon*** lemon juice from concentrate
Canada – ***Eagle Brand*** sweetened condensed milk, ***Cracker Jack*** caramel-coated popcorn and peanuts, ***ReaLemon*** lemon juice from concentrate, ***Snow's*** chowders and sauces, ***Snow's***, ***DeJean's*** and ***Highliner*** canned seafood products, ***Catelli*** pasta sauce, ***Milk Mate*** milk flavorings
Denmark – ***Cocio*** and ***Congo*** bottled chocolate milk and ***Hemo*** chocolate drink mix
Japan – ***Borden*** cheeses
Spain – ***Gallina Blanca*** dry soup mixes, ***Hoy Menu*** side dishes and ***Avecrem*** bouillon (exported to Middle East and Africa as ***Jumbo*** dry soup mixes and bouillon)

Dairy

Borden whole, lowfat, skim and chocolate milks and buttermilk; cottage cheese, sour cream, whipping cream and other creams; egg nog; orange juice; fruit drinks
Hi-Protein lowfat milk
Light sugar-free chocolate lowfat milk and nonfat yogurt
Lite-line protein-fortified skim milk, cottage cheese, sour cream and yogurt
Thirstee Smash fruit drinks
Borden ice cream and frozen novelty bars, sandwiches and pops; frozen yogurt
Eagle Brand ice cream
Lady Borden ice cream and brownie sandwiches
Light ice milk and sugar-free frozen novelties
Frostick, ***Mississippi Mud***, ***Juice Stix*** and ***Glacier Bar*** frozen novelties
Meadow Gold whole, lowfat, skim and chocolate milks and buttermilk; cottage cheese, sour cream, whipping cream and other creams; egg nog; orange juice; fruit drinks
Mountain High yogurt
Viva lowfat and lowfat extra-calcium milks, protein-fortified skim milk, cottage cheese, sour cream and yogurt; sugar-free chocolate lowfat milk and nonfat yogurt
Meadow Gold ice cream and frozen novelty bars, sandwiches and pops; frozen yogurt
Light ice milk
Olde Fashioned Recipe ice cream
Turtles frozen novelties
Viva sugar-free frozen novelties

Regional:

KLIM whole milk powder (New York)

Puerto Rico:

Nevada and ***Carnaval*** ice cream

International:

Worldwide export – ***KLIM*** whole milk powder
Bahamas and Costa Rica – Milk, ice cream and other dairy products
Colombia – ***KLIM*** and ***El Rodeo*** whole milk powder
Japan – ***Lady Borden***, ***Lady Borden Excellence*** and ***Borden Home Made*** ice cream; ***Borden*** margarine
Panama – ***KLIM*** whole milk powder; ***Borden*** ice cream, cheeses, juices and nectars

Non-Food Consumer

Wallcoverings – ***Birge***, ***Borden Home Wallcoverings***, ***Crown***, ***Fashion House***, ***Foremost***, ***Guard***, ***James Seeman Studios***, ***Mitchell Designs***, ***Satinesque***, ***ShandKydd***, ***Sunwall 54***, ***Sunwall 27***, ***Sun-Tex***, ***Sunworthy*** and ***Wall-Tex***
Elmer's household, carpenter's and specialty glues, cements, building adhesives, caulking compounds, sealants and wood fillers
Fill 'N Finish wood filler
Invisible Glove protective hand cream
Stix-All adhesive
Slide-All lubricant
Wonder Bond adhesive
Krazy Glue instant glues and high-function adhesives
Aron Alpha industrial adhesives
Accent, ***Country Colors*** and ***Colorworks*** artist/craft brush-on paints

International:

Brazil – Alba ***Cas Cola***, ***Cas Colar*** and ***Cascorez*** glues and adhesives; car-care products; epoxies, specialty tapes and hobby paints
Canada – ***Sunworthy*** wallcoverings; ***Elmer's*** glues and other products
Colombia – ***EGA*** glues and adhesives; car-care products; paints and coatings; shoe polish; household waxes and cleaners
Ecuador – ***Elmer's*** glues and adhesives; car-care products; household waxes; shoe polish
France – ***Heller*** plastic model kits
United Kingdom – ***Crown*** and ***Storeys*** wallcoverings; ***Humbrol*** and ***Airfix*** plastic model kits
West Germany – ***Borges*** wallcoverings

Films and Adhesives

ALpHASET, ***Betaset*** and other foundry resins; refractory coatings
Casco, ***Cascophen***, ***Cascoset*** and other specialty adhesives
Forest products adhesives
LUV and other industrial coatings and resins
Loadmaster and ***Resinite*** palletwrap films
Proponite and ***OPPtimum*** packaging films
Resinite and ***Sealwrap*** foodwrap films

International:

Film products – Belgium, France, Germany, Greece, Italy, Netherlands, Spain and United Kingdom; Canada; Argentina and Brazil; Australia and Japan
Forest products adhesives – Spain and United Kingdom; Canada; Argentina, Brazil, Colombia and Ecuador; Australia, Malaysia and Philippines
Foundry resins – France, Spain and United Kingdom; Argentina and Brazil; Australia and Japan
Rigid plastic packaging – France, Italy, Netherlands and United Kingdom
Specialty adhesives – Brazil; France and United Kingdom

1989 Financial Review

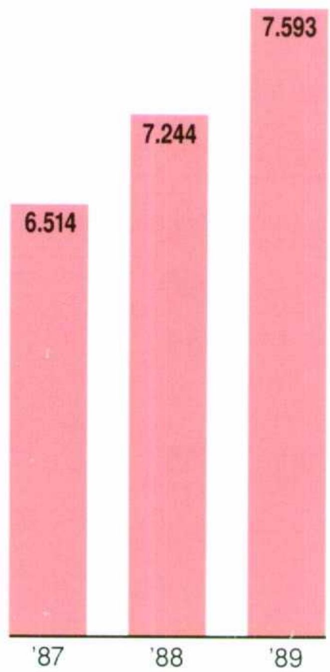
Sales and Earnings

Sales for 1989 increased 4.8% to $7.593 billion from $7.244 billion in 1988. Operating results for 1989 include a one-time charge of $570.7 million for the restructuring and reconfiguration programs, $404.4 million after tax, or $2.73 per share. As a result, the 1989 net loss was $60.6 million, or $0.41 per share, compared to net income of $311.9 million, or $2.11 per share, for 1988.

Dividends

Dividends for 1989 were $0.90 per share, an increase of 20.8% over 1988. The increase in 1989 represents the sixteenth consecutive yearly increase. Dividends have been paid without interruption for 91 years. Future dividends and the amount thereof will depend upon earnings, cash requirements and other relevant factors.

Sales
in billions of dollars



Management's Discussion and Analysis of Financial Condition and Results of Operations

Borden is primarily engaged in purchasing, manufacturing, processing and distributing a broad range of pasta, snacks, niche grocery products, dairy products, non-food consumer products and films and adhesives both domestically and in foreign countries. Borden operates in two major industry segments: the foods segment and the non-food consumer and industrial segment. Internally, Borden is organized into four operating divisions: Grocery and Specialty Products; Snacks and International Consumer Products; Dairy; and, Packaging and Industrial Products Domestic and International. The foods segment encompasses primarily the Grocery and Specialty Products Division; the Snacks and International Consumer Products Division; and, the Dairy Division. The non-food consumer and industrial segment encompasses primarily the Packaging and Industrial Products Division Domestic and International. For administrative purposes, certain non-food consumer and industrial segment operations are included in the Grocery and Specialty Products and the Snacks and International Consumer Products Divisions; and, certain foods segment operations are included in the Packaging and Industrial Products Division Domestic and International. A breakdown of the Company's sales, operating profit and other information between the foods and non-food consumer and industrial industry segments is presented on pages 32 and 33. A three-year summary of sales and operating income by the four operating divisions is presented on page 28. A discussion of the results achieved, financial position and cash flows in both industry segments, in terms of the Company as a whole and its divisions, for the three most recent years follows.

Results of Operations

On September 28, 1989, the Company announced programs to reconfigure production and distribution in certain of its businesses and to restructure its dairy operations. The entire program involves the closure or sale of about 65 of the Company's 265 plants world-wide over a two to three year period. One part of the program primarily involves the closure of small or older plants to streamline and consolidate production into larger more modern operations in the Company's pasta, snacks, grocery, non-food consumer and industrial products businesses, with the goal of being a lowest-cost producer in each by 1992. In the other part, about 20 dairy plants located in non-growth market areas, primarily the southeastern and midwestern U.S., will be sold or closed. The exit from selected dairy markets will primarily involve fluid milk and cultured products and account for about one-third of total Dairy Division sales. The restructuring and reconfiguration programs will reduce world-wide employment by approximately 7,000.

Borden's operating divisions must deal with intense competition on the local and national level, both in the United States and overseas. Advertising and promotion expenditures

were increased to $484.3 million in 1989 from $455.2 million in 1988 and $377.9 million in 1987 in order to preserve and expand Borden's market share.

Research and development expenditures were $25.1 million in 1989, $26.7 million in 1988 and $25.0 million in 1987. The development and marketing of new food and packaging and industrial products is carried out at the division level and is integrated with quality controls for existing product lines.

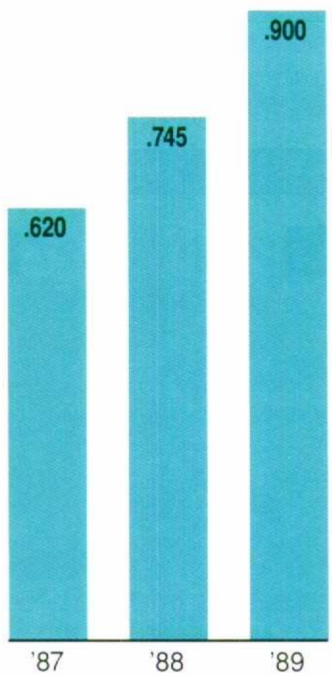
Net sales in 1989 increased 4.8% to a record $7.593 billion from 1988 sales of $7.244 billion. The 1988 sales increased 11.2% from 1987 sales of $6.514 billion. Sales attributable to operations to be sold or closed in connection with the restructuring and reconfiguration programs were $982.9 million for 1989, $1.055 billion for 1988 and $1.047 billion for 1987.

Operating results for 1989 include a one-time charge of $570.7 million for the restructuring and reconfiguration programs, $404.4 million after tax, or $2.73 per share. As a result, the 1989 net loss was $60.6 million, or $0.41 per share compared to net income of $311.9 million, or $2.11 per share in 1988. Net income in 1988 increased 16.8% from $267.1 million in 1987, while earnings per share for 1988 increased 16.6% from $1.81 in 1987.

Income taxes in 1989 were $63.1 million versus $232.7 million in 1988, which is the result of lower income in 1989 partially offset by an increase in the effective tax rate of 42.7% in 1988. The 1989 effective tax rate increase primarily reflects the write-offs of goodwill and other assets as part of the restructuring and reconfiguration programs which have reduced tax bases. Income taxes in 1987 were $206.2 million which resulted in an effective income tax rate of 43.6%.

Dividends Per Share*

in dollars



*restated for two-for-one stock split

As a result of a $507.6 million one-time charge for the portion of the restructuring and reconfiguration programs related to the operating divisions, division operating income declined to $240.9 million in 1989 from $704.4 million in 1988. The combined programs of reconfiguration and dairy restructuring are expected to improve operating income over $340.0 million through 1993. Division operating income in 1988 increased $90.5 million from the 1987 amount of $613.9 million. Operating income attributable to operations to be closed or sold, in conjunction with the reconfiguration programs, was $34.1 million for 1989, $40.2 million for 1988 and $36.1 million for 1987.

The following discussion of division operating results for 1989 excludes the effect of the $507.6 million one-time reconfiguration charge to operating income.

The Grocery and Specialty Products Division's 1989 sales increased 11.2% to $1.999 billion from $1.797 billion in 1988. Operating income increased 29.3% to $336.5 million from $260.3 million in 1988. The increase in sales was primarily the result of 1989 and 1988 acquisitions and higher pasta sales. The increase in operating income was primarily the result of acquisitions, lower raw material costs, primarily flour, and to a lesser degree, from benefits of the reconfiguration programs. The Division's 1988 sales increased 18.5% while operating income increased 25.5% from 1987. The increase in sales was primarily the result of a healthy increase in pasta sales, as well as 1988 and 1987 acquisitions. The increase in operating income was accomplished through acquisitions, cost efficiencies achieved by integrating production requirements and other benefits from consolidation of distribution, selling and administrative functions.

The Snacks and International Consumer Products Division's 1989 sales increased 7.7% to $1.721 billion from $1.599 billion in 1988. Operating income increased 7.2% to $170.6 million from $159.1 million in 1988. The increase in sales was due to domestic snacks acquisitions, substantial gains in

Three Year Comparison of Division Sales and Operating Income

(Dollars in thousands) For the Years	1989		1988		1987	
Division Sales						
Grocery and Specialty Products	**$1,998,702**	**26%**	$1,797,132	25%	$1,516,087	23%
Snacks and International Consumer Products	**1,721,212**	**23**	1,598,552	22	1,150,497	18
Dairy	**2,126,286**	**28**	2,189,626	30	2,210,085	34
Packaging and Industrial Products Domestic and International	**1,747,217**	**23**	1,658,216	23	1,637,753	25
Total	**$7,593,417**	**100%**	$7,243,526	100%	$6,514,422	100%
Division Operating Income						
Grocery and Specialty Products	**$ 336,537**	**45%**	$ 260,344	37%	$ 207,380	34%
Snacks and International Consumer Products	**170,624**	**23**	159,095	23	120,653	20
Dairy	**78,643**	**10**	102,286	14	116,343	19
Packaging and Industrial Products Domestic and International	**162,775**	**22**	182,636	26	169,538	27
Reconfiguration charge	**(507,649)***	*****				
Total	**240,930**	**100%**	704,361	100%	613,914	100%
Other income and expenses not allocable to divisions and income taxes	**(301,482)**		(392,479)		(346,858)	
NET (LOSS) INCOME	**$ (60,552)**		$ 311,882		$ 267,056	

**The one-time reconfiguration charge to division operating income is allocated as follows: $85,479 for Grocery and Specialty Products; $118,493 for Snacks and International Consumer Products; $220,448 for Dairy; and $83,229 for Packaging and Industrial Products Domestic and International. Percentages of division operating income were calculated excluding the effect of the reconfiguration charge. Other income and expenses not allocable to divisions includes $63,029 related to the one-time charge for reconfiguration programs.*

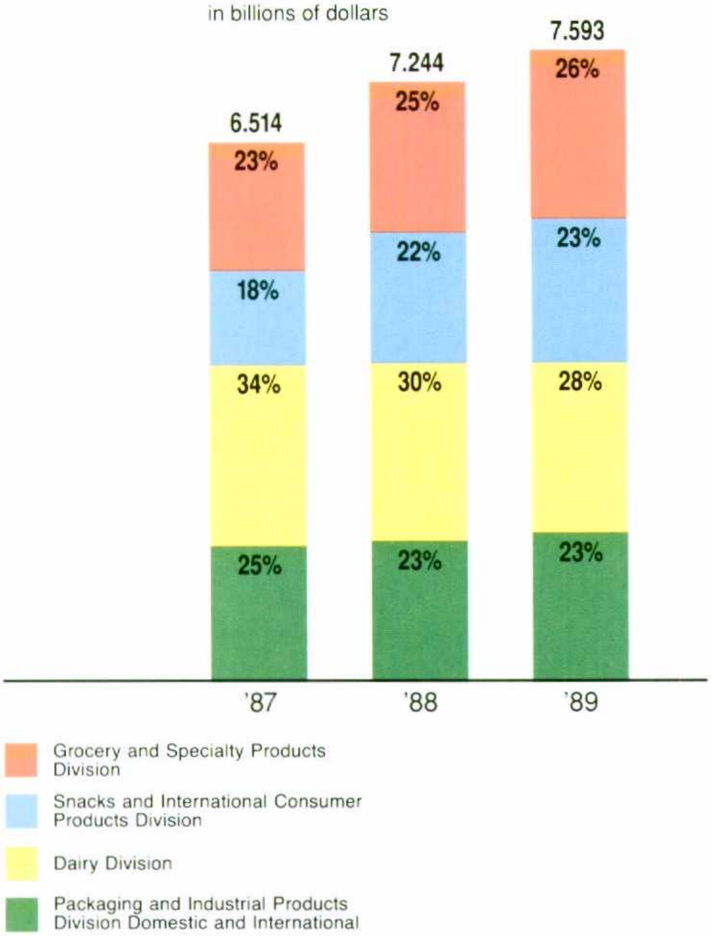
Canadian and United Kingdom snacks sales and significant volume increases in whole milk powder. Operating income for domestic snacks was lower due to higher raw material costs and increased spending to protect the Company's domestic snack business from new and aggressive competitors. This decline was more than offset by increases in the international foods and grocery operations. The Division's 1988 sales and operating income increased 38.9% and 31.9%, respectively, over 1987 levels. The increases were primarily the result of acquisitions, introduction of new products and an increase of business in Spain.

The Dairy Division's 1989 sales decreased 2.9% to $2.126 billion from $2.190 billion in 1988. Operating income decreased 23.1% to $78.6 million from $102.3 million in 1988. The sales decrease resulted from lower volume partially offset by price increases. The decrease in operating income was primarily due to intense market competition and substantial increases in raw milk costs which could not be fully passed through to consumers. The Division's 1988 sales decreased .9% and operating income decreased 12.1% from 1987 levels. The decrease in sales reflects a slight increase in volume offset by a decline in average selling price due to a change in product mix. The decline in operating income was due to higher raw milk costs resulting from the 1988 drought which could not be fully passed through to the consumer.

The Packaging and Industrial Products Division Domestic and International's 1989 sales increased 5.4% to $1.747 billion from $1.658 billion in 1988. Operating income decreased 10.9% to $162.8 million from $182.6 million a year earlier. The increase in sales was primarily due to higher industrial resin sales, foreign acquisitions and substantial increases in sales in the Brazilian operations, partially offset by lower

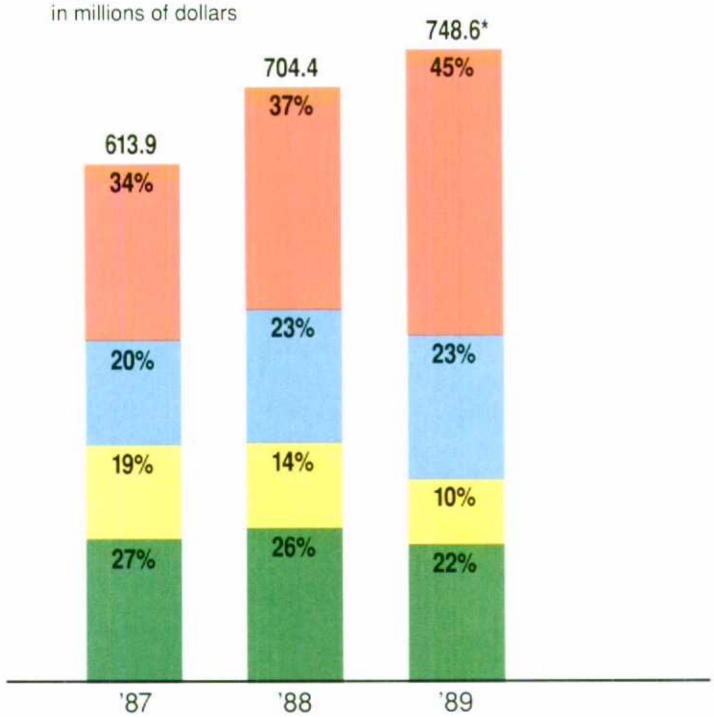
Sales by Division

in billions of dollars



Operating Income by Division

in millions of dollars



*excludes effect of reconfiguration charge

sales of wallcovering products. The decrease in operating income was primarily the result of the Company's reduced interest in Borden Chemicals and Plastics Limited Partnership from 25% in 1988 to 2% in 1989. Operating income for coatings, industrial resins and adhesives showed substantial improvement from the prior year, which was partially offset by declines in domestic films and wallcoverings. The Division's 1988 sales increased 1.2% from 1987, while operating income increased 7.7%. The increase in sales resulted from improved pricing and strong volumes, offset by foregone sales due to the divestiture of the basic chemicals and PVC resins operations. Decreased operating income from wallcovering operations was more than offset by moderate income improvements in other operations.

Inflation

Inflation in the U.S. has slowed in recent years. However, it continues to affect economies in certain countries where the Company does business. The Company continuously attempts to minimize the effect of inflation through cost reductions and improved productivity.

Liquidity and Capital Resources

Borden meets the majority of its operating cash requirements through operations. The amounts provided from operating activities in 1989, 1988 and 1987 were $212.0 million, $120.4 million and $318.9 million, respectively. Of the $404.4 million after tax reconfiguration charge, cash provided from 1989 operating activities includes $302.8 million of noncash charges and amounts which will be spent in future periods related to the restructuring and reconfiguration programs. Cash provided from operating activities for 1988 reflects income tax payments of $343.5 million which were substan-

tially higher than payments made in 1989 or 1987 because the 1988 amount included payment of taxes deferred in prior years in connection with the 1987 divestiture of the Company's basic chemicals and PVC resins business. Income tax payments in 1990 and future years will be reduced by approximately $114.7 million when tax deductions related to the one-time charge for the restructuring and reconfiguration programs are realized.

Short-term borrowings are utilized to meet temporary cash requirements. See Note 4 of the Notes to Consolidated Financial Statements for further information regarding short-term borrowings.

Borden borrows domestically at commercial paper rates and has credit agreements available with domestic and foreign lending institutions to support commercial paper borrowing of approximately $573.0 million. The credit agreements bear interest, if used, at approximately prime rate, or less, in effect at the date of use. Additional unused lines of credit totaling $254.1 million at December 31, 1989 are available for use by foreign subsidiaries.

At December 31, 1989 and 1988, $300.0 million of commercial paper was classified as long-term debt because the Company has both the intent and ability, through its credit facilities, to maintain such amount of debt for more than one year.

In 1989, 1988 and 1987, long-term debt financing provided $365.3 million, $118.4 million and $751.9 million, respectively.

Long-term debt financing in 1989 consisted primarily of proceeds from the $150.0 million issuance of 30-year, 9¼% Sinking Fund Debentures used to repay short-term commercial paper; proceeds from issuance of 5-year, 16½% Australian Dollar Notes used to acquire a foreign subsidiary; and, proceeds from foreign bank debt used to acquire another foreign subsidiary which will be refinanced in 1990.

Long-term debt financing in 1988 consisted primarily of proceeds from debt incurred to acquire a foreign subsidiary, which included issuance of 5-year, 10⅝% Canadian Dollar Notes, and other borrowings used to refinance certain foreign debt.

Long-term debt financing in 1987 included proceeds from a $315.0 million issuance of Medium Term Notes, proceeds from $300.0 million of commercial paper classified as long-term debt, and proceeds from a $125.0 million issuance of 10-year, 9⅞% Notes. Proceeds from the Medium Term Notes were used to repay commercial paper classified as long-term debt at December 31, 1986. Proceeds from commercial paper classified as long-term debt were used to finance the purchase of businesses and to retire $100.0 million of 12½% Eurodollar Extendible Notes. Proceeds from issuance of the 9⅞% Notes were used primarily to repay short-term debt.

The Company is a party to interest rate swap agreements covering $300,000 of commercial paper classified as long-term debt. The agreements effectively replace variable interest rates on the debt with a long-term fixed rate of 10.3%. The Company is also a party to currency swap agreements covering the 10⅝% Canadian Dollar Notes and the 16½% Australian Dollar Notes which result in effective interest rates of 10.8% and 11.1%, respectively.

Debt payable within one year increased $25.2 million in 1989, $123.6 million in 1988 and decreased $71.2 million in 1987.

The Company's strong financial position and history of growth in earnings provide a solid base for obtaining substantial financial resources. At December 31, 1989, the Company has the ability to borrow up to $325.0 million under shelf registration statements which provides the Company with flexibility to enter debt markets quickly and take advantage of favorable market conditions. If required, management believes that cash could be raised through additional long-term borrowings.

In December 1987, the Financial Accounting Standards Board issued FASB Statement No. 96, "Accounting for Income Taxes", which requires the use of the liability method of accounting for deferred income taxes. The Statement is currently under review and the required implementation date has been postponed to first quarter 1992. Under current provisions of the Statement, the effect of adoption may be reported either prospectively in the year of adoption or through restatement of one or more prior years. Because of potential changes and/or interpretations that may be forthcoming, the Company has not yet determined when it will adopt FASB Statement No. 96 or whether it will be applied prospectively or retroactively. The effect such adoption will have on the Company's operating results has not yet been determined.

During 1987 and 1988, the Company completed a restructuring of its commodity chemicals and plastics business through the formation of Borden Chemicals and Plastics Limited Partnership (the Partnership). The Company contributed its basic chemicals and PVC resins business and assets to the Partnership in exchange for 100% of the Partnership's preference and common units, the general partner interest in the Partnership and $148.4 million net proceeds from the issuance to certain financial institutions of $150.0 million principal amount of senior notes which were issued by the subsidiary operating partnership of the Partnership. Also in 1987, the Company, through a wholly-owned subsidiary, sold all of the preference units in two separate underwritten public offerings for which it received net proceeds of $264.1 million. The 1987 restructuring transactions converted assets previously committed to commodity products into $412.5 million in cash which provided the Company with funds for general corporate purposes and its acquisition program in its six strategic growth areas. In December 1988, preference unitholders approved amendments to the partnership agreement which, among other things, allowed Borden to sell common units, which it was previously required to retain for at least ten years, in an underwritten public offering. The sale of common units in December 1988 provided $137.7 million in cash to be used for general corporate purposes. The gain from the sale was substantially offset by expenses of the offering and other nonrecurring items, including costs of the administrative reorganization of the Dairy Division. After the sale of the common units, the Company and its subsidiaries retain an aggregate 2% general partner interest in the Partnership and its subsidiary operating partnership. The Company has agreed to remain as general partner until the year 2002, subject to certain limitations.

Besides providing funds for general corporate purposes and the Company's six strategic growth areas, the partnership structure affords the Company, under its own management, a reliable supply of certain raw materials required by its downstream packaging and industrial products operations. The supply of raw materials to the Company from the Partnership is covered by fifteen-year purchase and processing agreements at quantities based upon the Company's expected requirements and at prices which approximate market.

The Company acquired 15 operations during 1989 for a total cost of $264.3 million ($296.8 million including debt assumed). The 1989 acquisitions include a pasta and pasta sauce operation, an industrial foodservice operation, two West German bakeries, a maple syrup operation, a dehydrated soup operation, a sterile chocolate milk operation, a snacks operation, two dairy operations, an aerosol and craft paint operation, a wallpaper manufacturer, a plastic films and rigid packaging operation and two industrial products businesses. During 1988, the Company acquired 24 operations for a total cost of $379.9 million. The 1988 acquisitions include two pasta operations, two seafood specialty operations, a West German bakery, three industrial food service operations, a juices and nectars business, four snacks operations, two dairy operations, three wallcovering manufacturers, a gravure printing and plastic laminate business and five plastic packaging manufacturers. During 1987, the Company acquired 23 operations for a total cost of $442.6 million. The 1987 acquisitions include four dairy operations, two snacks operations, three pasta operations, three seafood specialty operations, two West German bakeries, two food flavoring businesses, a bouillon operation, a dehydrated soup operation, two wallcovering distributors and three packaging operations.

Capital expenditures for new facilities and improvements to existing facilities were $244.0 million in 1989, $232.6 million in 1988 and $201.8 million in 1987. Capital expenditures related to the restructuring and reconfiguration programs, primarily for construction of hyperplants, will be approximately $190.0 million through 1991. It is expected that these capital expenditures will be funded internally through cash flows from improved operating results and proceeds from operations to be sold.

Borden is actively engaged in complying with environmental protection laws, as well as various federal and state statutes and regulations relating to manufacturing, processing and distributing its many products. In this connection, Borden incurred approximately $5.6 million of capital expenditures in 1989 as compared to $5.5 million in 1988 and $13.2 million in 1987. It is estimated that Borden will spend $15.0 million for environmental control facilities during 1990.

In 1989, the Company acquired .6 million treasury shares at a cost of $18.1 million. In 1988 and 1987, it acquired 1.8 million shares at a cost of $47.9 million and 1.2 million shares at a cost of $25.2 million, respectively. Treasury shares on hand and any additional shares which may be purchased in 1990 will be held for general corporate purposes including possible future acquisitions.

Business Segments

Borden, Inc., as discussed on previous pages, operates in two major industry segments: the foods segment and the non-food consumer and industrial segment. Corporate departments provide certain centralized services for the Corporation and all operating units. The Company's general offices are located in Columbus, Ohio and its executive offices in New York City. Production facilities are located throughout the United States and in many foreign countries. The Company's operating properties are generally well maintained and effectively utilized.

The foods segment includes the following primary product lines: processed cheese, non-dairy creamer, reconstituted lemon and lime juices, bouillon, instant coffee, sweetened condensed milk, snack foods and cakes, confections, jams and jellies, pasta and pasta sauce, seafood, dehydrated soups, homogenized milk, whole milk powder, ice cream and milks, sherbets, yogurt, cottage cheese, frozen novelties, low-fat dairy products, milk-based products for industrial trade, and fruit drinks. The non-food consumer and industrial segment produces non-food consumer products including wallcoverings, spray paints and adhesives. Packaging and industrial products produced by the non-food consumer and industrial segment include transparent wrapping film, synthetic adhesives for the forest products industry and resins for the foundry industry.

As of December 31, 1989, the Company operated 120 domestic food manufacturing and processing facilities in 41 states and Puerto Rico. The most significant of these facilities are an Illinois plant producing ***Cracker Jack***, bouillon and dehydrated soup, an Alabama plant producing ***Bama*** jams and jellies and ***ReaLemon*** lemon juice, the Arizona, Minnesota and Massachusetts pasta plants, a foodservice plant in California, the Missouri and Pennsylvania snacks hyperplants and dairy facilities located throughout the country. In addition, the Company operated 46 foreign food and dairy manufacturing and processing facilities located principally in Latin America, Western Europe and Canada.

As of December 31, 1989, the Company operated 36 domestic non-food consumer and industrial manufacturing and processing facilities in 20 states, the most significant being Resinite operations in Georgia, Massachusetts and Texas and the Proponite operation in Massachusetts. In addition, the Company operated 60 foreign non-food consumer and industrial manufacturing and processing facilities located principally in Brazil, Western Europe, Canada and the Far East.

Domestic products for the foods segment are marketed primarily through food brokers and distributors, and directly to wholesalers, retail stores, food service businesses, food processors, institutions and governmental agencies. Domestic products for the non-food consumer and industrial segment are sold throughout the United States to industrial users and, in the case of consumer products, by an in-house and independent sales force to distributors, wholesalers, jobbers and dealers. To the extent practicable, international distribution techniques parallel those used in the United States. However, raw materials, production considerations, pricing competition, governmental policy toward industry and foreign investment and other factors vary substantially from country to country for both industry segments.

Segment operating profit as shown on page 33 is total revenue less operating expenses. The 1989 operating profit includes a charge of $507.6 million which represents the portion of the restructuring and reconfiguration programs related to operating divisions. In computing segment operating profit, none of the following items have been deducted from revenue: general corporate expenses, interest expense and Federal, state and local income taxes. General corporate expenses for 1989 also include a charge of $63.0 million which represents administrative and other company-wide expenses related to the restructuring and reconfiguration programs not allocated to the operating divisions. Minority interests in earnings of certain subsidiaries and the Company's equity in earnings of unconsolidated 20% to 50% owned companies have been included in segment operating profit. These amounts aggregated $13.9 million in 1989 and $12.7 million in 1988 for the foods segment; and $3.0 million in 1989 and $33.9 million in 1988 for the non-food consumer and industrial segment. In 1987, these amounts were not significant in relation to total segment operating profit.

Identifiable assets by segment are those assets that are used in the segments' operations. Corporate assets are principally cash and cash items.

Business Segments

(In thousands)	*Year Ended December 31,*	1989	1988	1987
Net Sales	Foods	**$5,660,662**	$5,385,766	$4,657,306
	Non-Food Consumer and Industrial	**1,932,755**	1,857,760	1,857,116
	Total	**$7,593,417**	$7,243,526	$6,514,422
Operating Profit	Foods	**$ 544,841**	$ 479,385	$ 405,873
	Non-Food Consumer and Industrial	**203,738**	224,976	208,041
	Reconfiguration charge	**(507,649)***		
	Total segments	**240,930**	704,361	613,914
	General Corporate income (expense)	**(78,141)**	(13,175)	(21,015)
	Interest expense	**(160,241)**	(146,604)	(119,643)
	Earnings before income taxes	**$ 2,548**	$ 544,582	$ 473,256
Identifiable Assets	Foods	**$3,322,133**	$3,174,715	$2,735,755
	Non-Food Consumer and Industrial	**1,255,472**	1,106,457	1,121,223
	Total segments	**4,577,605**	4,281,172	3,856,978
	Corporate assets	**247,291**	159,154	300,385
	Total	**$4,824,896**	$4,440,326	$4,157,363
Depreciation and Amortization	Foods	**$ 135,483**	$ 124,887	$ 79,720
	Non-Food Consumer and Industrial	**47,175**	44,879	76,243
Capital Expenditures	Foods	**$ 168,203**	$ 169,889	$ 127,587
	Non-Food Consumer and Industrial	**67,393**	60,079	67,829
Foreign Operations	Net sales	**$1,823,770**	$1,613,624	$1,158,926
	Operating profit	**127,501***	156,350	120,844
	Identifiable assets	**1,559,128**	1,154,099	930,847

**The reconfiguration charge to segment operating profit is allocated as follows: $441,514 for the foods segment and $66,135 for the non-food consumer and industrial segment. Operating profit of foreign operations includes a one-time reconfiguration charge of $62,927.*

Consolidated Statements of Income

(In thousands except per share data)	*Year Ended December 31,*	1989	1988	1987
Revenue	Net sales	**$7,593,417**	$7,243,526	$6,514,422
Costs and Expenses	Cost of goods sold	**5,671,676**	5,392,791	4,889,890
	Marketing, general and administrative expenses	**1,205,502**	1,196,812	1,020,235
	Reconfiguration charge	**570,678**		
	Interest expense	**160,241**	146,604	119,643
	Equity in income of affiliates	**(16,966)**	(46,601)	(10,971)
	Other (income) and expense, net	**(262)**	9,338	22,369
	Income taxes	**63,100**	232,700	206,200
		7,653,969	6,931,644	6,247,366
Earnings	Net (loss) income	**$ (60,552)**	$ 311,882	$ 267,056
Share Data	Net (loss) income per common share	**$ (0.41)**	$ 2.11	$ 1.81
	Cash dividends per common share	**0.90**	0.745	0.62
	Average number of common shares outstanding during the year	**148,213**	147,838	147,425

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(In thousands)	*Year Ended December 31,*	1989	1988	1987
Cash Flows From Operating Activities	Net (loss) income	**$ (60,552)**	$ 311,882	$ 267,056
	Adjustments to reconcile net (loss) income to net cash from operating activities:			
	Depreciation and amortization	**186,025**	172,870	159,147
	Reconfiguration charge	**401,394**		
	Net change in trade receivables	**(55,144)**	(67,773)	(40,572)
	Net change in inventories	**(3,611)**	(48,590)	(76,441)
	Net change in trade payables	**(4,331)**	14,094	46,298
	Net change in current and deferred taxes	**(81,553)**	(110,769)	17,191
	Net change in other assets	**(95,190)**	(79,987)	33,639
	Other, net	**(75,085)**	(71,314)	(87,373)
		211,953	120,413	318,945
Cash Flows From Investing Activities	Purchase of businesses (excluding value of stock issued of $30,264 and $24,024 in 1988 and 1987)	**(264,314)**	(349,595)	(418,624)
	Capital expenditures	**(243,960)**	(232,640)	(201,773)
	Divestiture of businesses	**124,254**	222,024	473,003
		(384,020)	(360,211)	(147,394)
Cash Flows From Financing Activities	Long-term debt financing	**365,326**	118,416	751,925
	Dividends paid	**(133,090)**	(110,354)	(91,433)
	Reduction in long-term debt	**(94,405)**	(144,319)	(474,326)
	Increase (decrease) in debt payable within one year	**25,172**	123,597	(71,163)
	Issuance of stock under stock options and benefits and awards plans	**18,404**	15,440	6,552
	Acquisition of treasury stock	**(18,096)**	(47,930)	(25,222)
		163,311	(45,150)	96,333
	(Decrease) increase in cash and equivalents	**(8,756)**	(284,948)	267,884
	Cash and equivalents at beginning of year	**112,678**	397,626	129,742
	Cash and equivalents at end of year	**$ 103,922**	$ 112,678	$ 397,626
Supplemental Disclosures of Cash Flow Information:	Interest paid	**$ 125,713**	$ 128,808	$ 97,482
	Taxes paid	**144,653**	343,469	189,009

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets

(In thousands except share and per share data)	*December 31,*	1989	1988
ASSETS			
Current Assets	Cash and equivalents	$ 103,922	$ 112,678
	Accounts receivable (less allowance for doubtful accounts of $13,584 and $14,652, respectively)	943,028	883,924
	Inventories:		
	Finished and in process goods	403,086	396,809
	Raw materials and supplies	260,935	258,132
	Other current assets	300,423	162,780
		2,011,394	1,814,323
Investments and Other Assets	Investments in and advances to affiliated companies	49,835	39,148
	Other assets	109,449	105,619
		159,284	144,767
Property and Equipment	Land	106,969	95,080
	Buildings	644,679	565,367
	Machinery and equipment	1,979,934	1,839,051
		2,731,582	2,499,498
	Less accumulated depreciation	(1,290,106)	(1,111,566)
		1,441,476	1,387,932
Intangibles	Intangibles resulting from business acquisitions (net of accumulated amortization of $99,072 and $70,446, respectively)	1,212,742	1,093,304
		$4,824,896	$4,440,326

See Notes to Consolidated Financial Statements

	December 31,	1989	1988
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities	Debt payable within one year	**$ 306,408**	$ 258,261
	Accounts and drafts payable	**609,042**	584,807
	Reconfiguration reserve	**192,522**	
	Income taxes	**86,807**	60,279
	Other current liabilities	**344,600**	319,265
		1,539,379	1,222,612
Other	Long-term debt	**1,440,563**	1,160,140
	Deferred income taxes	**180,160**	192,706
	Other long-term liabilities	**16,177**	12,758
	Minority interests in consolidated subsidiaries	**3,202**	3,495
		1,640,102	1,369,099
Shareholders' Equity	Capital stock:		
	Preferred stock—no par value Authorized 10,000,000 shares Issued series B convertible—8,147 shares and 10,354 shares, respectively (involuntary liquidating value of $235 or $28.88 per share at December 31, 1989)	**34**	43
	Common stock—$0.625 par value Authorized 480,000,000 shares and 240,000,000 shares, respectively Issued 201,983,374 shares	**126,240**	126,240
	Paid in capital	**307,720**	295,771
	Accumulated translation adjustment	**(59,710)**	(49,844)
	Retained earnings	**1,786,599**	1,980,241
		2,160,883	2,352,451
	Less common stock in treasury (at cost)—54,027,019 shares and 54,164,178 shares, respectively	**(515,468)**	(503,836)
		1,645,415	1,848,615
		$4,824,896	$4,440,326

Consolidated Statements of Shareholders' Equity

(In thousands)

Three Years Ended December 31, 1989	CAPITAL STOCK ISSUED Preferred Series B	Common	Paid-In Capital	Accumulated Translation Adjustment	Retained Earnings	Treasury Stock
Balance, December 31, 1986	$58	$126,240	$268,269	$(79,437)	$1,603,090	$(479,477)
Net income					267,056	
Cash dividends:						
Common stock					(91,416)	
Preferred series B					(17)	
Translation adjustment for the period				39,129		
Stock reacquired for acquisitions and treasury						(25,222)
Preferred series B stock converted	(4)		(62)			66
Stock issued for exercised options			3,933			2,619
Stock issued for acquisitions			16,065			7,959
Balance, December 31, 1987	54	126,240	288,205	(40,308)	1,778,713	(494,055)
Net income					311,882	
Cash dividends:						
Common stock					(110,339)	
Preferred series B					(15)	
Translation adjustment for the period				(9,536)		
Stock reacquired for acquisitions and treasury						(47,930)
Preferred series B stock converted	(11)		(150)			161
Stock issued for exercised options and award plans			7,716			7,724
Stock issued for acquisitions						30,264
Balance, December 31, 1988	43	126,240	295,771	(49,844)	1,980,241	(503,836)
Net loss					(60,552)	
Cash dividends:						
Common stock					(133,079)	
Preferred series B					(11)	
Translation adjustment for the period				(9,866)		
Stock reacquired for acquisitions and treasury						(18,096)
Preferred series B stock converted	(9)		(127)			136
Stock issued for exercised options and benefit and award plans			12,076			6,328
Balance, December 31, 1989	**$34**	**$126,240**	**$307,720**	**$(59,710)**	**$1,786,599**	**$(515,468)**

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

(In thousands except share and per share data)

1. Summary of Significant Accounting Policies

Significant accounting policies followed by the Company, as summarized below, are in conformity with generally accepted accounting principles.

Principles of Consolidation—The consolidated financial statements include the accounts of Borden, Inc. and its subsidiaries, after elimination of material intercompany accounts and transactions. The Company's proportionate share of the net earnings of unconsolidated 20% to 50% owned companies is included in income. The carrying value of these companies approximates Borden's interest in their underlying net assets. Investments of less than 20% ownership are carried at cost.

Cash and Cash Equivalents/Statements of Cash Flows—The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company has determined that the effect of exchange rate changes on cash flows is not material.

Inventories—Inventories are stated at the lower of cost or market. Cost is determined using the average cost and first-in, first-out methods.

Property and Equipment—Land, buildings and machinery and equipment are carried at cost.

Depreciation is recorded on the straight-line basis by charges to costs and expenses at rates based on estimated useful lives of properties (average rates for buildings 3.3%; machinery and equipment 7.5%).

Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, related cost and accumulated depreciation are removed from the accounts.

Intangibles—The excess of purchase price over net tangible assets of businesses acquired is carried as intangibles in the Consolidated Balance Sheets. It is the Company's policy to carry intangibles arising prior to November 1970 at cost until such time as there may be evidence of diminution in value or the term of existence of such value becomes limited. Intangibles arising after October 1970 are being amortized on a straight-line basis generally over a forty-year period.

Income Taxes—The provision for income taxes includes Federal, foreign, state and local income taxes currently payable and those deferred because of timing differences between income for financial statements and income for tax purposes. A substantial portion of the undistributed earnings of subsidiaries, primarily outside the United States, has been reinvested and is not expected to be remitted to the parent company. Accordingly, no additional Federal income taxes have been provided and at December 31, 1989, the cumulative amount of reinvested income was approximately $471,000.

In December 1987, the Financial Accounting Standards Board issued FASB Statement No. 96, "Accounting for Income Taxes", which requires the use of the liability method of accounting for deferred income taxes. The Statement is currently under review and the required implementation date has been postponed to first quarter 1992. Under current provisions of the Statement, the effect of adoption may be reported either prospectively in the year of adoption or through restatement of one or more prior years. Because of potential changes and/or interpretations that may be forthcoming, the Company has not yet determined when it will adopt FASB Statement No. 96 or whether it will be applied prospectively or retroactively. The effect such adoption will have on the Company's operating results has not yet been determined.

Pension, Retirement Savings and Certain Postretirement Benefits Plans—Substantially all of the Company's domestic and Canadian employees are covered under one of the Company's pension plans or one of the union-sponsored plans to which the Company contributes. Pension expense is determined pursuant to the provisions of FASB Statement No. 87, "Employers' Accounting for Pensions". The Company funds pension costs in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974.

Substantially all domestic and Canadian salaried and nonbargaining hourly employees participate in the Company's retirement savings plans. The Company's cost of providing retirement savings plans represents its matching of eligible contributions made by participating employees and is recognized as a charge to income in the year the cost is incurred.

The Company provides certain health and life insurance benefits for eligible domestic and Canadian retired employees. The cost of providing these benefits to retired employees under Company plans is recognized as a charge to income in the year the cost is incurred.

Earnings Per Share—Earnings per common share are computed based on the weighted average number of common shares outstanding.

2. Foreign Affiliates

Assets and liabilities of foreign affiliates are generally translated at current exchange rates and related translation adjustments are reported as a component of shareholders' equity. For entities in highly inflationary countries, a combination of current and historical rates are used in translating assets and liabilities and related exchange adjustments are included in net income.

After translation into U.S. dollars, the Company's proportionate share of net assets of foreign affiliates included in the Consolidated Financial Statements was $730,000 at December 31, 1989 and $530,000 at December 31, 1988.

Realized and unrealized net foreign exchange losses aggregating $23,400, $35,400 and $33,500 were charged to expense in 1989, 1988 and 1987, respectively.

3. Reconfiguration Charge

On September 28, 1989, the Company announced programs to reconfigure production and distribution in certain of its businesses and to restructure its dairy operations. Operations include a one-time charge of $570,678 for this program which reduced net income for 1989 by $404,378 or $2.73 per share. The program involves primarily the closure or sale of about 65 of the Company's 265 plants worldwide over a two to three year period. Many of the plant closures involve small or older plants whose production will be consolidated into larger more modern operations. About 20 dairy plants located in non-growth market areas will be sold or closed. Related personnel and other costs to streamline and consolidate production and distribution were also included in the reserve.

Sales attributable to operations to be closed or sold related to the restructuring and reconfiguration programs, were $982,944, $1,054,559 and $1,047,166 for the years ended December 31, 1989, 1988 and 1987, respectively. Operating income attributable to operations to be closed or sold was $34,141, $40,179 and $36,122 for the years ended December 31, 1989, 1988 and 1987, respectively.

Charges against the reserve were $378,156 and consisted primarily of write-downs to net realizable value of property, plant and equipment to be sold or disposed, and write-off of other related assets. Of the $404,378 after tax charge, cash provided from 1989 operating activities includes $302,808 of noncash charges and amounts which will be spent in future periods related to the restructuring and reconfiguration programs.

4. Debt, Lease Obligations and Related Commitments

Debt outstanding at December 31, 1989 and 1988 is as follows:

	1989		1988	
	Long-Term	Due Within One Year	Long-Term	Due Within One Year
10⅝% Canadian Dollar Notes due 1993	$ 47,686		$ 52,903	
16½% Australian Dollar Notes due 1994	116,385			
10¼% Notes due 1995	100,000		100,000	
9⅞% Notes due 1997	125,000		125,000	
Medium Term Notes, Series A (at an average rate of 7.8% and 7.5%, respectively)	245,000	$ 25,000	270,000	$ 25,000
Sinking Fund Debentures:				
8⅜% due 2016	140,000		160,000	
9¼% due 2019	150,000			
Commercial paper (at an average rate of 9.2% and 7.6%, respectively)	300,000		300,000	
Industrial Revenue Bonds (at an average rate of 8.5% and 8.3%, respectively)	73,945	1,236	75,078	1,201
Other borrowings (at an average rate of 9.9% and 8.7%, respectively)	142,547	44,255	77,159	17,770
Total current maturities of long-term debt		70,491		43,971
Short-term debt:				
Commercial paper (at an average rate of 8.7% and 10.1%, respectively)		35,000		45,000
Other (primarily foreign bank loans at an average rate of 11.6% and 10.4%, respectively)		200,917		169,290
Total debt	$1,440,563	$306,408	$1,160,140	$258,261

During 1989, the Company sold, at approximately par, 9¼% Sinking Fund Debentures with a final maturity in 2019 and 16½% Australian Dollar Notes which mature in 1994. Proceeds from the Debentures were used to repay short-term commercial paper and proceeds from the Australian Dollar Notes were used to finance the acquisition of a foreign subsidiary. In addition, the Company used short-term foreign bank loans of $48,400 as bridge financing at December 31, 1989 for the acquisition of a foreign subsidiary. The Company intends to refinance the bank loans and therefore the amounts are appropriately classified as long-term debt. During 1988, the Company sold, at approximately par, 10⅝% Canadian Dollar Notes which mature in 1993. Proceeds were used to partially finance the acquisition of a foreign subsidiary. The Company also refinanced certain foreign borrowings during 1988.

At December 31, 1989 and 1988, $300,000 of outstanding commercial paper has been classified as long-term debt since the Company has both the intent and ability, through its credit facilities, to maintain such amount of debt for more than one year.

The Company is a party to interest rate swap agreements covering the $300,000 of commercial paper classified as long-term debt. The agreements effectively replace variable interest rates on the debt with a long-term fixed rate of 10.3%. The Company is also a party to currency swap agreements covering the 10⅝% Canadian Dollar Notes and the 16½% Australian Dollar Notes which result in effective interest rates of 10.8% and 11.1%, respectively.

Aggregate maturities of long-term debt and minimum annual rentals under agreements classified and accounted for as operating leases at December 31, 1989 are as follows:

	Long-Term Debt	Minimum Rentals on Operating Leases
1990	$ 70,491	$53,910
1991	67,357	45,727
1992	46,938	33,903
1993	86,971	27,917
1994	179,210	29,666
1995 and beyond*	1,060,087	73,372

*Figures represent combined totals for all years.

The average amount of short-term commercial paper outstanding was $116,000 during 1989 and $87,000 during 1988, and the average amount of other short-term debt was $187,000 during 1989 and $138,000 during 1988. The respective weighted average interest rates for short-term commercial paper and other short-term debt were 9.3% and 11.0% during 1989, and 8.1% and 14.7% during 1988. Maximum month-end borrowings were $177,000 in 1989 and $165,000 in 1988 for short-term commercial paper, and $219,000 in 1989 and $171,000 in 1988 for other short-term debt. Short-term commercial paper was issued and redeemed on the open market in the United States through money market dealers.

The Company has unused credit agreements of approximately $573,000 which bear interest, if used, at the prime rate of interest or less, are compensated with commitment fees, and are available to support commercial paper borrowings. These agreements consist of a $300,000 revolving credit facility for the issuance of short-term notes and credit agreements of approximately $273,000 under which it can execute term loans for up to two years. Additional unused credit facilities of approximately $254,100 are available for use by foreign subsidiaries.

The Company has capitalized interest that related to the capital cost of acquiring certain fixed assets. The total interest costs incurred and the portions capitalized were $162,432 and $2,191 in 1989, $148,676 and $2,072 in 1988 and $122,557 and $2,914 in 1987.

5. Income Taxes

Comparative analyses of the provisions for income taxes follows:

	1989	1988	1987
Current			
Federal	**$ 76,800**	$133,400	$220,300
State and Local	**3,700**	33,200	44,500
Foreign	**65,100**	39,300	40,600
	145,600	205,900	305,400
Deferred			
Federal	**(65,400)**	13,800	(87,900)
State and Local	**(15,600)**	4,000	(15,600)
Foreign	**(1,500)**	9,000	4,300
	(82,500)	26,800	(99,200)
	$ 63,100	$232,700	$206,200

The deferred tax provision in 1989 includes $(114,700) which represents the tax effects of costs and expenses related to the reconfiguration programs which are deductible for income tax purposes in future years when the assets are disposed or expenditures incurred. The deferred Federal tax provisions in 1989, 1988 and 1987 also reflect accelerated write-offs of property and equipment costs, Federal tax effects of which were $1,200, $7,400 and $3,800, respectively. The deferred tax provisions for 1988 and 1987 also reflect reversals of deferred taxes of $14,500 and $88,400, respectively, in connection with the divestiture of the Company's basic chemicals and PVC resins business.

Reconciliations of the differences between income taxes computed at Federal statutory tax rates and consolidated provision for income taxes are as follows:

	1989	1988	1987
Income taxes computed at Federal statutory tax rate	**$ 900**	$185,200	$189,300
State tax provision, net of Federal benefit	**(7,800)**	24,500	17,300
Foreign tax differentials	**4,100**	7,900	(300)
Reconfiguration charge, primarily write-offs of assets with reduced tax bases	**51,000**		
Other—net	**14,900**	15,100	(100)
Provision for income taxes	**$ 63,100**	$232,700	$206,200

The domestic and foreign components of income before income taxes are as follows:

	1989	1988	1987
Domestic	**(141,459)**	$416,049	$356,152
Foreign	**144,007**	128,533	117,104
	$ 2,548	$544,582	$473,256

6. Operations by Industry Segment

Information about the Company's industry segments and geographic areas of operation is provided on pages 32 and 33 of this Annual Report and is an integral part of the Consolidated Financial Statements.

7. Pension, Retirement Savings and Certain Postretirement Benefit Plans

Company charges to operations under the Company's retirement savings plans in 1989, 1988 and 1987 amounted to approximately $17,800, $15,500 and $12,700, respectively. For the Retirement Savings Plan for salaried employees, the Company's matching contribution was 100% for each of the three years, of every dollar of eligible employee contributions. Eligible contributions were 5% for all participating salaried employees and as much as 7% for longer service salaried employees. For the Hourly Savings Plan for hourly non-bargaining employees, the Company's matching contribution was 80% in 1989 and 50% in 1988 and 1987, of every dollar of eligible employee contributions. Eligible contributions were 5% for all participating hourly non-bargaining employees in 1989 and 1988 and were 2% for participating employees in 1987.

For substantially all salaried employees, the Company's domestic and Canadian pension plans provide benefits based on the employee's final average compensation and credited service prior to 1988 and career average compensation and credited service after 1987. For hourly employees, the plans provide benefits based on specified amounts and credited service.

Following are the components of net pension credits recognized by the Company for its domestic and Canadian plans:

	1989	1988	1987
Service cost—benefits earned during the period	**$ 12,700**	$ 12,100	$ 11,100
Interest cost on the projected benefit obligation	**39,800**	37,200	33,600
Actual return on plan assets	**(85,800)**	(44,200)	1,900
Net amortization and deferral	**31,600**	(7,200)	(48,100)
Net periodic pension credit	**$ (1,700)**	$ (2,100)	$ (1,500)

The primary assumptions used to determine net periodic pension credits were as follows:

	1989	1988	1987
Weighted average discount rate	**9.57%**	9.00%	7.50%
Rate of increase in future compensation levels	**7.08**	6.75	5.50
Expected long-term rate of return on plan assets	**11.04**	10.25	8.50

Operations were charged approximately $11,500 in 1989, $13,100 in 1988 and $11,900 in 1987 primarily for payments to pension trusts on behalf of domestic employees not covered by the Company's plans and foreign employees.

Most domestic employees not covered by the Company's plans are covered by collectively bargained agreements and are generally effective for periods of from one to three years. Under Federal pension law there would be continuing liability to these pension trusts if the Company ceased all or most participation in any such Trust, and under certain other specified conditions. The annual payment of such continuing liability would not normally exceed the annual amount currently being paid to such Trust. The amount of such liability would be determined should the Company withdraw from participation.

The charges to operations for health and life insurance benefits to retired domestic and Canadian employees under Company plans amounted to $8,900, $9,400 and $7,800 in 1989, 1988 and 1987, respectively.

The combined funded status of the Company's domestic and Canadian plans and amounts included in the Company's balance sheets at December 31, 1989 and 1988 were as follows:

	1989	1988
Plan assets at fair value	**$ 532,800**	$ 472,200
Actuarial present value of benefit obligations:		
Accumulated benefit obligation (including vested benefits of $449,000 and $398,200, respectively)	**(467,600)**	(429,300)
Effect of projected future compensation levels	**(8,700)**	(5,500)
Projected benefit obligation	**(476,300)**	(434,800)
Plan assets in excess of projected benefit obligation	**56,500**	37,400
Unrecognized prior service cost	**(20,600)**	(22,300)
Unrecognized loss	**16,200**	28,800
Unrecognized portion of net asset upon adoption of FASB Statement No. 87	**(29,500)**	(32,500)
Prepaid pension cost included in other assets	**$ 22,600**	$ 11,400

Plan assets consist primarily of equity securities and corporate obligations. Common stock of the Company accounted for approximately 12% and 11% of the total market value of plan assets at December 31, 1989 and 1988, respectively.

The weighted average discount rates and rates of increase in future compensation levels used in determining the projected benefit obligation were 8.6% and 6.3%, respectively, as of December 31, 1989, and 9.5% and 7.0%, respectively, as of December 31, 1988.

Foreign pension plans are not significant in the aggregate and therefore are not summarized with domestic and Canadian plans. However, the total of plan assets and accruals approximated projected benefit obligation as of December 31, 1989 and 1988.

8. Shareholders' Equity

On July 25, 1989, the Board of Directors amended the Company's Restated Certificate of Incorporation to double the number of authorized common shares from 240 million shares to 480 million shares. On September 6, 1989, a two-for-one split of the Company's common stock was effected through the distribution of one additional share for each share of stock already issued. In connection with the split, the par value of common stock was reduced from $1.25 per share to $0.625 per share. As a result, there was no change in the capital accounts. Amounts per share and number of shares have been restated to give retroactive effect to the stock split.

Each of the 8,147 shares of preferred series B stock bears an annual cumulative dividend of $1.32, is convertible into 6.6 common shares, and is redeemable at the Company's option at $39. At December 31, 1989, 53,770 common shares were reserved for conversion of preferred series B stock.

Under a Preferred Share Purchase Rights Plan, each outstanding share of stock has one preferred stock purchase right (Right) which entitles shareholders to purchase, under certain circumstances, one one-hundredth of a share of Series C Junior Participating Preferred Stock at an exercise price of $175, subject to adjustment. The Rights may only be exercised if a person or group acquires 20% or more of the Company's common stock or announces a tender or exchange offer for 30% or more of the common stock. The Rights, which do not have voting rights, expire on February 10, 1996 and may be redeemed by the Company at a price of $.01⅔ per Right at any time prior to their expiration or until 10 business days after a public announcement that a party has become a 20% shareholder. In addition, the Rights Agreement allows shareholders to vote on an all-cash offer to purchase all of the Company's shares. A shareholders' meeting may be requested by a bidder who does not hold 5% or more of the common shares and who meets certain requirements.

In the event the Company is involved in a merger or other business combination transaction in which the Company does not survive or in which its common stock is exchanged, each holder of a Right will be entitled to purchase, at the exercise price, that number of shares of common stock of the acquiring company which at the time of such transaction would have a market value of two times the exercise price of the Right.

Following is an analysis of common shares reserved for stock options under the Company's 1974 and 1984 Stock Option Plans as Amended:

	Common Shares Reserved for Stock Options	
	Shares	Price Range
January 1, 1989	2,855,860	$4.23-29.25
Grants	1,013,984	36.06
Exercises	(406,612)	4.28-27.845
Expirations or cancellations	(101,038)	4.23-27.845
December 31, 1989	3,362,194	

At December 31, 1989, 2,348,210 options were exercisable. Included with shares reserved for unexercised options at December 31, 1989 are 1,721,380 options with stock appreciation rights attached, which permit the holder the election, in lieu of exercising the option, of receiving cash, shares, or a combination of cash and shares. In 1989, the holders of stock appreciation rights agreed that they would exercise the rights only in the event of a change in control of the Company. Prior to that agreement, 101,500 stock appreciation rights were exercised during 1989.

The Company's 1984 Stock Option Plan as Amended provides for the grant of options to purchase up to 9,700,000 shares of the Company's common stock. The Plan expires in 1993 and no further options may be granted thereafter. At December 31, 1989 and 1988, there were 4,472,070 and 5,389,716 shares, respectively, available for future grants.

9. Supplemental Income Statement Information

Set forth below is a comparative summary of certain expense items:

	1989	1988	1987
Maintenance and repairs	**$155,711**	$145,444	$145,956
Depreciation and amortization	**186,025**	172,870	159,147
Advertising and promotions (including promotions of $413,331, $383,998 and $309,678, respectively)	**484,314**	455,187	377,928
Research and development	**25,130**	26,696	25,041
Rent	**72,591**	66,630	51,252

10. Quarterly Financial Data (Unaudited)

1989 Quarters	First	Second	Third	Fourth
Net sales	$1,803,863	$1,873,891	$1,962,759	$1,952,904
Gross profit	405,953	475,785	520,525	519,478
Net income (loss)	59,036	83,947	(303,442)	99,907
Per share of common stock:				
Earnings (Loss)	0.40	0.57	(2.05)	0.67
Dividends*	0.195	0.225	0.24	0.24
Market price range:				
Low	27¾	29⅝	33	31⅛
High	30	35⅝	38⅝	36⅝

*Dividends on preferred series B stock were $.33 in each quarter during 1989.

1988 Quarters	First	Second	Third	Fourth
Net sales	$1,602,311	$1,783,739	$1,874,189	$1,983,287
Gross profit	388,612	462,316	499,944	499,863
Net income	52,390	73,717	91,924	93,851
Per share of common stock:				
Earnings	0.36	0.50	0.62	0.63
Dividends*	0.16	0.195	0.195	0.195
Market price range:				
Low	23⅝	24¼	25⅛	26⅝
High	28¾	27¾	27½	30⅝

*Dividends on preferred series B stock were $.33 in each quarter during 1988.

11. Acquisitions and Divestitures

During 1989, the Company acquired 15 operations for a total cost of $264,314 ($296,790 including debt assumed). The 1989 acquisitions include a pasta and pasta sauce operation, an industrial foodservice operation, two West German bakeries, a maple syrup operation, a dehydrated soup operation, a sterile chocolate milk operation, a snacks operation, two dairy operations, an aerosol and craft paint operation, a wallpaper manufacturer, a plastic films and rigid packaging operation and two industrial products businesses. During 1988, the Company acquired 24 operations for a total cost of $379,859. The 1988 acquisitions include two pasta operations, two seafood specialty operations, a West German bakery, three industrial foodservice operations, a juices and nectars business, four snacks operations, two dairy operations, three wallcovering manufacturers, a gravure printing and plastic laminate business and five plastic packaging manufacturers. During 1987, the Company acquired 23 operations for a total cost of $442,648. The acquisitions include four dairy operations, two snacks operations, three pasta operations, three seafood specialty operations, two West German bakeries, two food flavoring businesses, a bouillon operation, a dehydrated soup operation, two wallcovering distributors and three packaging operations. The acquisitions have been accounted for as purchases, and the excess of cost over fair value of net tangible assets acquired is being amortized on a straight-line basis generally over 40 years.

During 1989, the Company disposed of 5 operations for approximately $124,254 in cash. During 1988, the Company disposed of 7 operations for approximately $222,024 in cash. During 1987, besides the sale of Partnership preference units discussed below, the Company disposed of five other operations for approximately $60,500 in cash.

On November 30, 1987, the Company contributed its basic chemicals and PVC resins business and assets to Borden Chemicals and Plastics Limited Partnership (the Partnership) in exchange for 100% of the Partnership's preference and common units, the general partner interest in the Partnership, and $148,400 net proceeds from a privately placed debt offering by a subsidiary of the Partnership. Also in 1987, the Company sold all of the preference units in two underwritten public offerings for which it received net proceeds of approximately $264,100. In December 1988, the Company sold all of its common units of the Partnership in an underwritten public offering for which it received net proceeds of approximately $137,700. After the sale of the common units, the Company retains an aggregate 2% general partner interest in the Partnership and its subsidiary operating partnership.

12. Commitments

In connection with the 1987 sale of its basic chemicals and PVC resins business to the Partnership, the Company agreed, subject to certain limitations, to provide additional cash to the Partnership, if necessary, to support the payment by the Partnership of its minimum quarterly distribution on all preference units through December 31, 1992. This commitment is limited to an aggregate of approximately $170,000, subject to reduction under certain circumstances. In connection with the 1988 sale of all common units, the Company also agreed to make direct payments to common unitholders equal to, on a per unit basis, any excess of cash distributed by the Partnership to preference unitholders over that distributed to common unitholders. The total commitment is limited to an aggregate of approximately $70,000. In addition, a wholly-owned subsidiary of the Company, as general partner, manages and controls the activities of the Partnership and has fiduciary responsibilities to the Partnership's unitholders. The management of the Company believes that any payments pursuant to this commitment or any fiduciary responsibilities will not have a material adverse effect on the financial condition of the Company.

Report of Management

The management of Borden, Inc. is responsible for the preparation of all information, including the financial statements and related notes, included in this annual report to shareholders. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and include amounts based on the best judgment of management. Financial information included elsewhere in this annual report is consistent with these financial statements.

In recognition of its responsibility for the integrity and objectivity of data in the financial statements, management maintains a system of internal accounting controls. This system includes an organizational structure with clearly defined lines of responsibility and delegation of authority. To assure the effective administration of internal control, employees are carefully selected and trained, written policies and procedures are developed and disseminated, and appropriate communication channels are provided to foster an environment conducive to the effective functioning of controls.

The system is supported by an internal auditing function that operates worldwide and reports its findings to management throughout the year. The Company's independent accountants are engaged to express an opinion on the year-end financial statements. They objectively and independently review the performance of management in carrying out its responsibility for reporting operating results and financial condition. With the coordinated support of the internal auditors, they review and test the system of internal accounting controls and the data contained in the financial statements.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets regularly with independent accountants, management and internal auditors to review the work performed and to ensure that each is properly discharging its responsibilities. The independent accountants and the internal auditors independently have full and free access to the Committee, without the presence of management, to discuss the results of their examinations, the adequacy of internal accounting controls and the quality of financial reporting.

R. J. Ventres
Chairman and
Chief Executive
Officer

L. O. Doza
Senior Vice President
and Chief Financial
Officer

Report of Independent Accountants

Price Waterhouse
153 East 53rd Street
New York, NY 10022

January 30, 1990

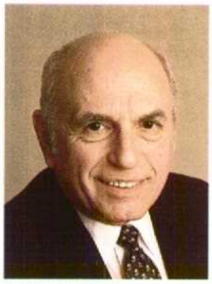
Board of Directors and
Shareholders of Borden, Inc.

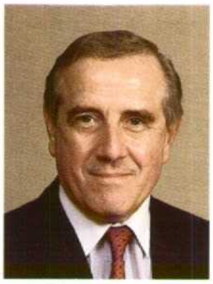
In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Borden, Inc. and its subsidiaries at December 31, 1989 and 1988, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1989, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Officers

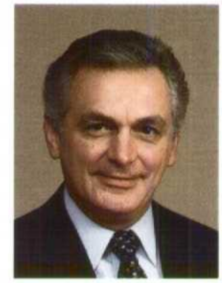
Office of the Chairman


R. J. VENTRES
Chairman and
Chief Executive Officer


A. S. D'AMATO
Executive Vice President
President, Packaging and
Industrial Products Division
Domestic and International


RICHARD W. FOWLKES
Executive Vice President
President, Dairy Division


JON G. HETTINGER
Executive Vice President
President, Grocery and
Specialty Products Division


GEORGE J. WAYDO
Executive Vice President
President, Snacks and
International Consumer
Products Division

CORPORATE SENIOR VICE PRESIDENTS

LAWRENCE O. DOZA
Chief Financial Officer

ALLAN L. MILLER
Chief Administrative Officer

ALFRED S. CUMMIN
Science and Technology

FRANK L. FLORIAN
Planning

DIVISION EXECUTIVES

Grocery and Specialty Products Division

LEE N. ARST
Group Vice President – Confection and Main Meals

JERRY C. CLOWDUS
Group Vice President – Foodservice and Industrial

JOHN F. DIX
Group Vice President – Desserts and Non-Food

L. JOHN WESTERBERG
Group Vice President – Pasta

Packaging and Industrial Products Division Domestic and International

JOSEPH M. SAGGESE
Senior Group Vice President – Adhesives, Resins and Coatings

BENEDICT LETIZIA
Group Vice President – International

Snacks and International Consumer Products Division

DAN O'RIORDAN
Senior Group Vice President – International

PETER M. DUGGAN
Group Vice President – Snacks

CORPORATE VICE PRESIDENTS

JAMES M. HESS
General Controller

KAREN L. JOHNSON
Consumer Affairs

DAVID A. KELLY
Treasurer

WALTER W. KOCHER
General Counsel

JOSEPH A. McCAHERY
General Auditor

JAMES T. McCRORY
Public Affairs

FRANK H. VOIGT
Employee Relations

STAFF DEPARTMENTS

ROBERT G. TRITSCH
Secretary

H. CORT DOUGHTY, JR.
Assistant Secretary

RICHARD H. BYRD
Assistant Treasurer

STEVEN C. DOVE
Assistant Treasurer

TERRENCE W. GASPER
Assistant Treasurer

GEORGE W. SANBORN
Assistant Treasurer

THOMAS V. BARR
Assistant General Controller

LARRY A. CARTER
Assistant General Controller

EDMUND M. KONOPKA
Assistant General Controller

PAUL J. JOSENHANS
Associate General Counsel

LAWRENCE L. DIEKER
Assistant General Counsel

JAMES A. KING, JR.
Assistant General Counsel

RONALD P. MORAN
Assistant General Counsel

JUDY BARKER
President, The Borden Foundation

Directors

THEODORE COOPER, M.D.
Chairman of the Board and Chief Executive Officer
The Upjohn Company
(Pharmaceuticals)

VIRGINIA DWYER
Former Senior Vice President – Finance
American Telephone and Telegraph Company

WILBERT J. LeMELLE
President
Mercy College

ROBERT P. LUCIANO*
Chairman and Chief Executive Officer
Schering-Plough Corporation
(Pharmaceuticals/consumer products)
*Elected August 1989

JOHN W. LYNN
Retired Chairman and Chief Executive Officer
F.W. Woolworth Co.
(Retail merchandising)

ROBERT T. QUITTMEYER
Former Chairman and Chief Executive Officer
Amstar Corporation
(Sweeteners – industrial and technical products)

PATRICIA CARRY STEWART
Vice President
The Edna McConnell Clark Foundation
(Charitable foundation)

EUGENE J. SULLIVAN
Chairman of the Executive Committee
Former Chairman and Chief Executive Officer

FRANK J. TASCO
Chairman of the Board and Chief Executive Officer
Marsh & McLennan Companies, Inc.
(Insurance brokerage, consulting and investment services)

R. J. VENTRES
Chairman and Chief Executive Officer

PIETER C. VINK
Retired Chairman
North American Philips Corporation
(Electrical/electronic manufacturing)


Theodore Cooper, M.D.


Virginia Dwyer

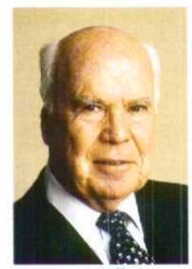

Wilbert J. LeMelle


Robert P. Luciano


John W. Lynn


Robert T. Quittmeyer


Patricia Carry Stewart


Eugene J. Sullivan


Frank J. Tasco


R. J. Ventres


Pieter C. Vink

Five-Year Selected Financial Data

(All dollar and share figures in thousands—except market price, number of common shareholders, average number of employees and per share statistics)

For the Years	1989	1988*	1987*	1986*	1985*
Summary of Earnings					
Net sales	**$7,593,417**	$7,243,526	$6,514,422	$5,002,097	$4,716,172
Income taxes	**63,100**	232,700	206,200	166,900	130,700
Net (loss) income	**(60,552)****	311,882	267,056	223,312	193,804
Percent of net income to sales	**	4.3%	4.1%	4.5%	4.1%
Net (loss) income per common share	**$ (0.41)****	$ 2.11	$ 1.81	$ 1.50	$ 1.25
Dividends:					
Common share	**$ 0.90**	$ 0.745	$ 0.62	$ 0.547	$ 0.493
Preferred series B share	**1.32**	1.32	1.32	1.32	1.32
Average number of common shares outstanding during the year	**148,213**	147,838	147,425	149,095	155,063
Financial Statistics					
Capital expenditures	**$ 243,960**	$ 232,640	$ 201,773	$ 163,017	$ 193,602
Inventories	**664,021**	654,941	566,177	462,571	423,046
Property, plant and equipment, net	**1,441,476**	1,387,932	1,194,760	1,443,246	1,296,460
Depreciation and amortization	**186,025**	172,870	159,147	137,237	122,651
Total assets	**4,824,896**	4,440,326	4,157,363	3,582,189	2,932,246
Current assets	**2,011,394**	1,814,323	1,868,958	1,437,470	1,318,734
Current liabilities	**1,539,379**	1,222,612	1,147,117	1,005,338	705,182
Working capital	**472,015**	591,711	721,841	432,132	613,552
Current ratio	**1.3:1**	1.5:1	1.6:1	1.4:1	1.9:1
Long-term debt	**$1,440,563**	$1,160,140	$1,172,095	$ 845,442	$ 526,563
Total debt to adjusted total capitalization	**51%**	43%	44%	42%	32%
Shareholders' equity	**$1,645,415**	$1,848,615	$1,658,849	$1,438,743	$1,407,795
Liquidating value of preferred stock	**(235)**	(299)	(376)	(409)	(494)
Common shareholders' equity	**1,645,180**	1,848,316	1,658,473	1,438,334	1,407,301
Equity per common share at year-end	**11.12**	12.50	11.26	9.77	9.14
Return on average shareholders' equity	**	17.8%	17.2%	15.7%	14.3%
Ratio of earnings to fixed charges	**1.0:1**	4.1:1	4.4:1	4.9:1	4.5:1
Shareholders' Data					
Outstanding shares at year-end:					
Common	**147,956**	147,819	147,306	147,249	154,032
Preferred series B	**8**	10	13	14	17
Market price of common stock:					
At year-end	**$ 34⅜**	$ 29⅝	$ 24¾	$ 23½	$ 17¼
Range during year	**38⅝-27¾**	30⅝-23⅝	32-15	26¼-15⅞	17⅞-10⅝
Number of common shareholders	**39,098**	38,465	40,743	40,474	43,374
Employees' Data					
Payroll	**$1,070,200**	$1,077,800	$ 815,400	$ 667,500	$ 637,300
Average number of employees	**46,500**	45,400	39,400	33,800	32,700

**Restated for two-for-one stock split explained in Note 8 to Consolidated Financial Statements.*

***Includes one-time after tax charge of $404,378 or $2.73 per share related to reconfiguration programs explained in Note 3 to Consolidated Financial Statements. Percent of net income to sales and return on average shareholders' equity is not meaningful because of net loss resulting from reconfiguration programs.*

Corporate Information

Executive Offices
Borden, Inc.
277 Park Avenue
New York, New York 10172
Telephone (212) 573-4000

Administrative Headquarters
180 East Broad Street
Columbus, Ohio 43215
Telephone (614) 225-4000

Annual Meeting
The Annual Meeting will be held on Friday, April 20, 1990, beginning at 11:00 a.m. in the Hunterdon Theatre, Church Street and Route 31, Flemington, New Jersey 08822

Independent Accountants
Price Waterhouse
153 East 53rd Street
New York, New York 10022

Transfer Agent, Registrar & Dividend Disbursing Agent
The Bank of New York
P.O. Box 11258
Church Street Station
New York, New York 10286
Telephone 1-(800) 524-4458

Debenture and Note Trustees
$8\frac{3}{8}\%$ Sinking Fund Debentures
$10\frac{1}{4}\%$ Notes
The First National Bank of Chicago
Chicago, Illinois 60670

$9\frac{1}{4}\%$ Sinking Fund Debentures
$9\frac{7}{8}\%$ Notes
Medium-Term Notes, Series A
The Bank of New York
New York, New York 10005

$10\frac{5}{8}\%$ Canadian Dollar Notes
Banque International á Luxembourg S.A.
L-2953 Luxembourg

Exchange Listings
Common Stock (Ticker Symbol-BN)
New York Stock Exchange
The Common Stock is currently listed on exchanges in Tokyo, Japan; and Basel, Geneva, Lausanne and Zurich, Switzerland.

New York Stock Exchange
$8\frac{3}{8}\%$ Sinking Fund Debentures, due 2016
$10\frac{1}{4}\%$ Notes, due 1995

Luxembourg Stock Exchange
$10\frac{5}{8}\%$ Canadian Dollar Notes, due 1993

Japanese Shareholder Service Organization & Paying Bank
The Yasuda Trust & Banking Co., Ltd.
Stock Transfer Agency Department
1-2-1, Yaesu, Chuo-ku,
Tokyo, Japan

Date and State of Incorporation
April 24, 1899 - New Jersey

Dividend Reinvestment Plan
A dividend reinvestment plan is available to Borden shareholders. Quarterly common stock dividends may be automatically reinvested in Borden common stock, and optional cash investments may be made for the purchase of additional shares. No service fees or commissions are assessed for shares purchased under this program.

For more information, write to:

The Bank of New York
P.O. Box 11260
Church Street Station
New York, New York 10277

Form 10-K Report
Borden, Inc. will furnish to any shareholder, without charge, a copy of its most recent annual report on Form 10-K, as filed with the United States Securities and Exchange Commission.

Written requests should be directed to:

Borden, Inc.
Director, Investor Relations
277 Park Avenue
New York, New York 10172

IF IT'S BORDEN-IT'S
GOT TO BE GOOD

BORDEN, INC. 277 PARK AVENUE NEW YORK, N.Y. 10172